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Corporate governance practices promoting the sustainability of small, medium and microenterprises in South Africa

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# **Corporate governance practices promoting the sustainability of small, medium and microenterprises in South Africa**



**EDITED BY**  
**Medicine Magocha & Martha Matashu**

**Corporate governance  
practices promoting the  
sustainability of  
small, medium and  
microenterprises  
in South Africa**



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# **Corporate governance practices promoting the sustainability of small, medium and microenterprises in South Africa**

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## Research justification

This book is concerned with the part played by corporate governance practices in the sustainability of small, medium and microenterprises (SMMEs) in the South African context. With the emergence of the new global economy, SMMEs and corporate governance are recognised as strategic drivers of economic development in any economy. Although a plethora of studies have been conducted on corporate governance and SMMEs, such studies have applied a fragmented approach, and this has not only widened the epistemological, ontological and philosophical gaps but also increased our misunderstanding of the interrelationship between governance and small enterprises in theory and practice. Currently, theoretical and empirical studies on corporate governance have focused on large corporate companies, shaping our understanding of how the capital sources used to finance the firm warrant a separation of ownership and control, and prompting the need for putting governance structures, principles and practices in place that safeguard the maximisation of wealth for stakeholders. At the macro-level, corporate governance is believed to contribute to economic growth and development through improved corporate performance and sustainability. Although studies on corporate governance broaden our understanding of the way in which large corporate enterprises are governed, corporate governance in entrepreneurial firms, specifically SMMEs has been little researched. Studies on SMMEs have focused on understanding several issues such as funding, job creation and the challenges small business face. However, there is limited research that focuses on exploring whether the adoption of corporate governance in SMMEs may lead to the promotion of small business sustainability.

Within this context, this book thus addresses the gap in the corporate governance and small enterprises literature by exploring whether the integration of corporate governance in SMMEs enhances the sustainability of these entities. This book is centred on exploring whether embedding sound corporate governance in entrepreneurial practices may contribute to the improved performance and sustainability of SMMEs. Given the importance of SMMEs for economic development, it is imperative to investigate whether corporate governance can enhance the performance and sustainability of such small businesses. This is therefore the central investigation of this manuscript, with each chapter uniquely contributing to knowledge generation and debate in this regard. Chapters rely on a variety of methodological approaches to answer their main research questions and aims. Chapter 6, 'Addressing sustainability challenges facing small and medium-sized tourism enterprises in Amathole district through embedding corporate governance', by Bulelwa Nguza-Mduba is based on a more than 50% reworking of her PhD thesis and an appropriate acknowledgement is provided in this regard. We confirm that no part of the work has been plagiarised and that this manuscript represents original scholarly work and contribution.

The target audience of the book is scholars in the field of corporate governance, SMME studies and economic development.

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# Contents

Abbreviations and acronyms, figures and tables appearing in the text and notes	xvii
List of abbreviations and acronyms	xvii
List of figures	xxi
List of tables	xxi
Notes on contributors	xxiii
Acknowledgement	xxxv
Foreword	xxxvii
Introduction	xli

## Part 1: Theories and philosophies of entrepreneurship governance and sustainability

---

<b>Chapter 1: Corporate governance practices for promoting sustainability of small and medium enterprises</b>	<b>3</b>
<i>Martha Matashu</i>	
Abstract	3
Introduction	4
Definition of a small business and owner self-governance dilemma	7
Landscape of sustainability of small and medium enterprises in South Africa post-1994	8
Research design	10
Theory synthesis of four stages	10
Stage 1: Revisiting existing theoretical and conceptual paradigms for the understanding of small and medium enterprises	11
Small and medium enterprises as strategic drivers of development policy goals	11
Institutional policy and support initiatives for sustainable development of small and medium enterprises	12
Fragmented small and medium enterprises, corporate governance and sustainability knowledge disciplines	13
Epistemic dissonances and absence of corporate governance in small and medium enterprises	14
Epistemic, theoretical and conceptual gaps in the existing understanding of small and medium enterprises and their sustainability	15

Stage 2: Problematising an existing theory or concept and resolving identified dilemmas by introducing a new theoretical lens	16
The paradox of small and medium enterprises' sustainability	17
Existing gaps between governance for small and medium enterprises' sustainability and supporting policies	19
Stage 3: Expanding the application domain of an existing theory or concept by introducing a new theoretical lens	20
Deontological and utilitarian philosophy of small and medium enterprises' sustainability	20
Stage 4: Identifying new dimensions of an established construct by introducing a new theoretical lens	21
Theorisation and conceptualisation of the integration of corporate governance practices to promote the sustainability of small and medium enterprises	21
Agency theory	22
Stakeholder theory	22
Proposed conceptual framework of corporate governance practices for promoting sustainability of small and medium enterprises	24
Corporate governance principles, practices and sustainability	25
Corporate citizenship and sustainability	26
Governance and management structure	27
Integrated sustainability report	27
Embedding corporate governance to foster sustainability of small and medium enterprises	28
Conclusion	28
Recommendations	29

## **Chapter 2: The contribution of good corporate governance of entrepreneurship towards South African economic development and sustainability** **31**

### ***Medicine Magocha***

Abstract	31
Introduction	32
Historical background of entrepreneurship in Africa	35
Entrepreneurship and economic development in South Africa	36
Entrepreneurship	36
Economic development	37
South Africa's 21st-century entrepreneurial economic levels of sustainability	37

The contributions of entrepreneurship to economic development in South Africa	40
Creates employment opportunities	41
Increases economic growth and development	41
Promotes wealth creation and distribution	41
Improves the standard of living	41
Contributes to gross national product	41
Increases competition	42
Introduces innovations and induces economic growth	42
Promotes balanced regional development	42
Good corporate governance of entrepreneurship in South Africa	42
Characteristics of good corporate governance required by South African entrepreneurs	43
Corporate governance, national governance and the future of entrepreneurship in South Africa	45
Regulatory policies and strategies of South African economic development of small, medium and microenterprises	46
Regulatory policies in South Africa	47
Enabling cross-border trade by small, micro and medium enterprises in South Africa in anchoring economic growth	49
Strategic drivers of sustainable economic development in the South African economy	49
Corporate governance and sustainability	52
The benefits of corporate sustainability on entrepreneurship in South Africa	55
The challenges of entrepreneurship to economic development in South Africa	55
Conclusion	55
Recommendations	56
 <b>Chapter 3: Towards an <i>Utu, Unhu-Ubuntu</i> entrepreneurship framework</b>	 <b>57</b>
<i>Medicine Magocha &amp; Martha Matashu</i>	
Abstract	57
Introduction	58
Reevaluating small and medium enterprises model in the context of Ubuntu philosophy	60
Ubuntu philosophy	60
Corporate governance theoretical frameworks	62
<i>Unhu-Ubuntu</i> and corporate governance	63



Intersections between <i>Unhu-Ubuntu</i> principles and corporate governance	63
Critical theory research paradigm	65
Disrupting ethnocentric neoliberal ideologies in South Africa	65
Theoretical frameworks underlying corporate governance practices adopted by small and medium enterprises	66
Characteristics of small and medium enterprises	67
Conception of Ubuntu philosophy	68
Ubuntu as an entrepreneurship philosophy	70
Ownership model based on <i>Utu, Unhu-Ubuntu</i>	72
Communitarianism	74
Cooperative Ubuntupreneurship governance and sustainability framework	75
Values of Ubuntupreneurship	77
Conclusion	78
Recommendations	79

## **Part 2: Ownership, governance practices and their implications for the sustainability of small and medium enterprises and small, medium and microenterprises**

---

<b>Chapter 4: An insight into family-owned businesses, growth and sustainability</b>	<b>83</b>
<i>Herring Shava</i>	
Abstract	83
Introduction	84
Definition of a family business	84
Family businesses and corporate governance	85
Succession planning in the context of a family business	88
Managing succession planning in the family business for sustainability	91
Individual relations and succession planning in family businesses	92
The business context and succession planning in family business	93
Financial issues and succession planning	93
Ensuring sustainability of the family business for future generations	93
The transfer of management to the new successor	94
Governance challenges in family business	94

Applying corporate governance principles to mitigate family business challenges in South Africa	95
Corporate leadership in family-owned businesses	97
Independence of the board	98
Directors: Appointment, nomination, removal and term of office	99
Corporate disclosure	99
Role duality	100
Family entities and corporate social responsibility	100
Diversity	101
Conclusion	102
Recommendations	102
 <b>Chapter 5: Sustainability of survivalist microenterprises and their role in informal employment creation</b>	 <b>105</b>
<i>Anthony K Masha, Stenford Matenda, Siphenathi Fihla &amp; Munienge Mbodila</i>	
Abstract	106
Introduction	106
Problem statement	108
Literature review	109
Informal entrepreneurship linkage to survivalist activities	109
Challenges faced by survivalist microenterprises	109
Youth not being taken seriously	110
Lack of finance	111
Strict regulatory frameworks	112
Lack of awareness of available business support services	113
Importance of promoting the sustainability of survivalist microenterprises	113
The contribution of survivalist microenterprises to informal employment creation	118
Informal employment outside of the informal sector	118
Methodology	119
Research paradigm	119
Population and sampling	120
Research instrument	121
Findings and analysis of results	121
Role of survivalist enterprises in informal employment creation	123
Challenges faced by survivalist business	123

Measures for enhancing the sustainability of survivalist microenterprises	126
Conclusion	126
Recommendations	127

## **Part 3: Performance and sustainability of entrepreneurship**

---

<b>Chapter 6: Addressing sustainability challenges facing small and medium-sized tourism enterprises in Amathole district through embedding corporate governance</b>	<b>131</b>
<i>Bulelwa Nguza-Mduba</i>	
Abstract	131
Introduction	132
Context of the study	134
Statement of the research problem	135
Significance of the study	136
Small and medium-sized tourism enterprises in the Eastern Cape province	137
An insight into the state of small and medium-sized tourism enterprises in the Eastern Cape province	137
Contributions of the small and medium-sized tourism enterprises in the Eastern Cape	137
Challenges faced by the small and medium-sized tourism enterprises in the Eastern Cape province	138
Lack of general management skills and competences	139
Lack of access to finance	139
Inability to enter certain markets	140
Inadequate use of information technologies	140
Labour law and regulation restrictions	141
Lack of small business's research skills	142
Issuing of permits and licences	142
Uncoordinated government small and medium-sized tourism enterprises support policies and services	142
Risks incurred in the tourism industry	143
Natural disasters, environmental and man-made challenges	143
Illegal practices affecting tourism in South Africa	144
The situational analysis of the Eastern Cape	144

Strengths, weaknesses, opportunities and threats analysis of the Eastern Cape province based on the literature	145
Situational reviews on the challenges specified in the National Tourism Sector Strategy	147
Physical proximity	148
The role of government departments and local economic development in promoting the sustainability of small and medium-sized tourism enterprises	148
Research methodology	149
Results and discussions	149
Challenges facing the tourism business enterprise	149
Lack of capital to start the tourism business	149
Seasonal nature of the tourism business	150
Provision of basic public services or commodities	150
Noise pollution	151
Abscondment of employees and strong competition	151
Increase in the number of social ills	151
Destruction of the environment	152
Problems affecting the development of tourism in the local community	152
Lack of stakeholder support	153
Immigration regulations that affect the currency exchange rate	153
The positive impacts of the tourism business on the local community	154
Preservation of tourists' resources	154
Embedding sustainability of small and medium-sized tourism enterprises through the integration of corporate governance	155
Corporate governance enables the business to make competitive strategies	155
Corporate governance enables the business to make competitive information and communications technology strategies	155
Corporate governance improves small and medium-sized tourism enterprises' access to finance and performance	156
Corporate governance assists in accessing the markets	156
Corporate governance promotes sustainable strategy, enabling small and medium-sized tourism enterprises to make better operational decisions in their entities	157

Corporate governance promoting environmental risk management	157
Conclusion	158
Recommendations	158

## **Chapter 7: Government policies for promoting small, medium and microenterprises development in South Africa** **161**

*Thobeka Ncanywa, Noluntu Dyantyi & Zukiswa Roboji*

Abstract	161
Introduction	162
Problem statement and study objectives	164
Literature review	166
Government policies promoting small, medium and microenterprises development through corporate governance	169
Government policies on the regulatory environment of small, medium and microenterprises	169
Government policies on supply chain management	170
Government policies on training and skills transfer in small, medium and microenterprises	172
Government policies on finance and management skills	175
Access to finance	175
Lack of alignment between corporate social responsibility and financial management skills	176
Policies guiding good corporate governance of small, medium and microenterprises	177
Conclusion	177
Recommendations	178

## **Chapter 8: Pitfalls weighing down the development of sustainable entrepreneurial governance culture among the South African youths: Eclectic contexts** **181**

*Medicine Magocha & Simon M Kang'ethe*

Abstract	181
Introduction	182
Pitfalls weighing down the development of entrepreneurial culture among South African youths	184
Role of patriarchy in undermining entrepreneurial culture	185
South African curriculum suffers from colonial hangovers	187

Poor saving culture among the young entrepreneurs	187
Fiscal challenges	191
Enhancing youth entrepreneurial culture through a Jingoistic approach	193
Sustaining youth entrepreneurship culture in South Africa through good corporate governance	194
Conclusion	197
Recommendations	198
 <b>Chapter 9: Financial governance practices and sustainable development of small, medium and microenterprises</b>	 <b>199</b>
<i>Dorah Dubihlela &amp; Jobo Dubihlela</i>	
Abstract	199
Introduction	200
Small, medium and microenterprises development in South Africa	201
The concept of financial governance	203
Results of good financial governance	205
The need for a theory of financial information and sustainability	206
Theories on beneficiaries of financial information	206
Vulnerable group theory of financial information	206
Financial literacy theory of financial information	207
Public money theory of financial information	207
Intervention fund theory of financial information	208
Financial governance and small, medium and microenterprises	209
Financial governance challenges for small, medium and microenterprises	211
Financial governance systems are not sufficient	211
The structure of financial reports is inconsistent and irregular	211
The cost system is not perfect	211
Poor planning of financing options	212
Minimal to no use of accounting information software	212
Small, medium and microenterprises access to finance and information	212
Success stories and efforts at policy level	213
Financial governance and good corporate governance practices	214
Conclusion	215
Recommendations	216

<b>Chapter 10: Sustainable entrepreneurship performance through adoption of sound corporate governance practices</b>	<b>219</b>
<i>Kin Sibanda &amp; Progress Hove-Sibanda</i>	
Abstract	219
Introduction	220
Corporate governance and small and medium enterprise sustainable entrepreneurship performance	222
Factors that affect small and medium enterprise sustainable entrepreneurship performance	224
Size of the firm	225
Availability of government support	226
Access to adequate resources	226
Organisational culture	227
Small and medium enterprise leadership's sustainability orientation, commitment and support	228
Small and medium enterprise sustainable entrepreneurship performance evaluation metrics and approaches	230
Ways in which corporate governance can enhance the sustainable performance of small and medium enterprises	233
Sustainable entrepreneurship: Trends and practices	234
The future of entrepreneurship	236
Characterised by digitalisation: Emphasising agility, resilience and speed	237
New age of diverse entrepreneurship	239
Location-independent solutions	240
Green businesses	240
Conclusion	241
Recommendations	241
<b>References</b>	<b>243</b>
<b>Index</b>	<b>295</b>



# Abbreviations and acronyms, figures and tables appearing in the text and notes

## List of abbreviations and acronyms

4IR	Fourth Industrial Revolution
AFCFTA	African Continental Free Trade Area
AGRA	Alliance for a Green Revolution in Africa
AIS	Accounting information systems
AISCR	African Institute of Supply Chain Research
ALTx	Alternative Exchange
APP	African Pathways Programme
B&B	Bed and breakfasts
BBBEE	Broad-based black economic empowerment
BEM	Bernelli Entrepreneurial Model
BIC	Business Innovation Centres
BRICS	Brazil, Russia, India, China, South Africa
BW	Botswana
BWA	Botswana
CAEPR	Centre for Aboriginal Economic Policy Research
CANRAD	Centre for the Advancement of Non-Racialism and Democracy
CDC	Coega Development Corporation
CDE	Centre for Development and Enterprise
CEO	Chief Executive Officer
CFO	Chief financial officer
CG	corporate governance
CGP	corporate governance practices
CIPC	Companies and Intellectual Property Commission
CIS	Chartered Institute of Secretaries
CO <sub>2</sub>	carbon dioxide
CoE	Centre of Excellence
COGTA	Cooperative Governance and Traditional Affairs
COVID-19	coronavirus disease 2019

CPI	Corporate Private Incubators
CSIR	Council for Scientific and Industrial Research
CSR	Corporate social responsibility
DBSA	Development Bank of Southern Africa
DFI	Development Financial Institutions
DHET	Department of Higher Education and Training
DMaaS	Data Management as a Service
DSBD	Department of Small Business Development
DTI	Department of Trade and Industry
DTIC	Department of Trade, Industry and Competition
EBO	Established Business Ownership
ECP	Eastern Cape province
EDC	Enterprise Development Corporation
ELPF	East London Port Festival
EO	Entrepreneurial orientation
EP	Enterprise propellers
ESG	Environmental and Social Governance
EU	European Union
FSB	Financial Services Board
GDP	Gross domestic product
GEM	Global Entrepreneurship Monitor
GHA	Ghanaian
GNP	Gross National Product
HCJWF	Hogsback Christmas in July Winter Festival
HEI	Higher Education Institutions
ICLS	International Classification of Status in Employment
ICSB	International Council for Small Business
ICT	Information and communication technology
IDC	Industrial Development Corporation
IJAR	International Journal of Accounting Research
IJEBA	International Journal of Economics & Business Administration
IJERT	International Journal of Engineering Research & Technology
ILO	International Labour Organisation
IMF	International Monetary Fund
IoT	Internet of Things
IPADA	International Conference on Public Administration and Development Alternatives

IPI	Independent Private Incubators
IT	Information technology
JA	Junior Achievement
JBRMR	Journal of Business and Retail Management Research
JRBEM	Journal of Research in Business, Economics and Management
JSE	Johannesburg Stock Exchange
LCM	Life Cycle Model
LDC	Least Developed Countries
LED	Local Economic Development
LFS	Labour force survey
LSO	Lesotho
MBALI	Management, Business, Administration and Legal Initiatives
MDG	Millennium Development Goals
MOI	Memorandum of Incorporation
NARYSEC	National Rural Youth Service Corps
NDP	National Development Plan
NEF	National Empowerment Fund
NICVA	Northern Ireland Council for Voluntary Action
NIHSS	National Institute for the Humanities and Social Sciences
NISED	National Integrated Small Enterprise Development
NPO	Non-profit organisation
NRF	National Research Foundation
NSBAC	National Small Business Council
NSBDS	National Small Business Development Strategy
NTSS	National Tourism Sector Strategy
NWU	North-West University
NYDA	National Youth Development Agency
OAPEN	Open Access Publishing in European Networks
OECD	Organisation for Economic Co-operation and Development
PFMA	Public Financial Management Act
PGDHET	Postgraduate Diploma in Higher Education and Training
PPPFA	Preferential Procurement Policy Framework Act
QES	Quarterly Employment Statistics
QLFS	Quarterly Labour Force Survey
R&D	Research and development
RADLA	Research and Doctoral Leadership Academy

SA	South Africa
SAACE	South African Association of Commerce Education
SABEF	South African Black Entrepreneurs Forum
SACC	South African Competition Commission
SACCO	Savings and credit cooperatives
SADC	Southern African Development Community
SARS	South African Revenue Services
SDGs	Sustainable Development Goals
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SEP	Sufficiency Economy Philosophy
SEP	Sustainable Entrepreneurship Performance
SETA	Sector Education and Training Authority
SLA	Sustainability Livelihood Approach
SME	Small, medium and micro-enterprise
SMME	Small, medium and micro enterprise
SMTEs	small and medium-sized tourism enterprises
StatsSA	Statistics South Africa
STP	SEDA Technology Programme
SWOT	Strengths, weaknesses, opportunities and threats
TDCA	Trade Development and Cooperation Agreement
TEA	Total Early-Stage Entrepreneurial Activity
TVET	Technical and Vocational Education and Training
UBIs	University Business Incubators
UIF	Unemployment Insurance Fund
UK	United Kingdom
UKZN	University of KwaZulu-Natal
UN	United Nations
US	United States
VFR	Visiting Friends and Relatives
WCED	World Commission on Environment and Development
WEF	World Economic Forum
WTO	World Trade Organization
YBSA	Youth Business South Africa
ZAF	South Africa

## List of figures

Figure 1.1:	Outline of themes and chapters of the book.	6
Figure 1.2:	Theory synthesis of four stages.	10
Figure 1.3:	Gaps between theory, policy and practice.	19
Figure 1.4:	Proposed conceptual framework of corporate governance practices for promoting sustainability of small and medium enterprises.	24
Figure 2.1:	Corporate governance – sustainability framework.	53
Figure 3.1:	Cooperative Ubuntupreneurship centric governance and sustainability model.	76
Figure 3.2:	Ubuntu social justice corporate governance framework.	78
Figure 5.1:	Survivalist perceptions.	122
Figure 8.1:	Selected sub-Saharan African saving % of gross domestic product.	189
Figure 8.2:	Emerging funding methods of youth enterprises from households.	192
Figure 10.1:	Chapter map.	221
Figure 10.2:	Corporate governance practices and sustainable entrepreneurship performance evaluation metrics for small and medium enterprises.	232

## List of tables

Table 2.1:	Upgraded definition of small, medium and microenterprises in South Africa.	34
Table 5.1:	Trajectory from survivalist to small-scale entrepreneurs and contribution to the informal sector.	115
Table 9.1:	Benefits of financial governance.	205



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## Foreword

# Foreword

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In the ever-evolving landscape of global economics, the role of entrepreneurial ventures cannot be overstated. These innovative enterprises, often small and medium-sized, form the backbone of economies, fostering creativity, generating employment and driving economic growth. In the context of South Africa, a nation rich in entrepreneurial history, the significance of these enterprises is particularly pronounced. However, their potential has yet to be fully realised, and understanding the intricate interplay between corporate governance and the sustainability of these ventures is pivotal. In today's rapidly changing global economy, entrepreneurial firms are increasingly recognised as crucial drivers of economic development. Despite the wealth of research on corporate governance and entrepreneurial firms, there has been a notable gap in our understanding of corporate governance principles applied to small and medium enterprises (SMEs), the backbone of many economies, especially in South Africa.

*Corporate governance practices promoting the sustainability of small, medium and microenterprises in South Africa* delve into the heart of this critical relationship. This ground-breaking volume not only identifies the gaps in our current understanding but also provides invaluable insights into how sound corporate governance can enhance the performance and

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sustainability of SMEs. Through meticulous research and thoughtful analysis, the authors navigate the complex terrain of entrepreneurship, shedding light on the challenges faced by these ventures and proposing innovative solutions grounded in corporate governance principles.

The strength of this book lies in its comprehensive approach. It tackles the subject matter from various angles, exploring theories and philosophies of entrepreneurship governance and sustainability, dissecting ownership and governance practices, and unravelling the nuanced dynamics of performance and sustainability in the entrepreneurial realm. By doing so, the authors paint a comprehensive picture of the challenges and opportunities that small, medium and microenterprises (SMMEs) encounter, offering readers a deep understanding of the intricate web of factors that influence their success. The book begins by underscoring the fragmented approach that previous studies have taken when examining the interrelationship between corporate governance and entrepreneurial firms. Most prior research has been heavily skewed towards large corporate companies, overlooking the specific needs and challenges faced by smaller businesses. This book seeks to rectify this imbalance by delving into the critical topic of corporate governance in SMMEs, shedding light on how these practices can enhance their performance and sustainability.

One of the book's most commendable aspects is its focus on the unique African context. By drawing on South Africa's rich entrepreneurial heritage and historical trade relationships, the authors contextualise their research, providing a lens through which readers can appreciate the complexities of entrepreneurship in this region. In doing so, they highlight the importance of preserving and nurturing indigenous entrepreneurial philosophies, such as the Ubuntu philosophy and integrating them with modern corporate governance practices to forge a path towards sustainable economic development.

As I perused the chapters of this book, I was struck by the depth of analysis and the relevance of the topics explored. From the challenges faced by family-owned businesses to the exploration of sustainable entrepreneurship performance through the adoption of sound corporate governance practices, each chapter offers valuable insights that policymakers, academics and entrepreneurs can leverage to foster a conducive environment for SMMEs to thrive.

In conclusion, the book *Corporate governance practices promoting the sustainability of small, medium and microenterprises in South Africa* is a timely and essential contribution to the field of entrepreneurship studies. Its thoughtful examination of corporate governance practices not only fills critical gaps in the existing literature but also provides a roadmap for policymakers and practitioners alike. I commend the authors for their

diligent research and commitment to addressing this important gap in the literature. Their efforts in exploring corporate governance practices for promoting the sustainability of SMMs have the potential to foster economic growth, reduce inequality and improve the lives of countless individuals. I hope this book will inspire further research and policy initiatives to support the vital role of entrepreneurship in South Africa and beyond. This book is a must-read for anyone passionate about fostering sustainable economic development and empowering entrepreneurial ventures in South Africa and beyond.





# Introduction

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Sound corporate governance of entities is expected to enhance their efficiency and sustainability. A network of innovation, ideas and commerce has existed in Africa since time immemorial; however, issues related to the governance of small, medium and microenterprises (SMMEs) have not yet been fully examined. Africa has the resources and capabilities required to sustain its entrepreneurial hubs, which are deeply connected to history. This is traceable to the global ascent of neoliberal capitalism, which has drawn remote corners of the world into globalised entities of capital and substituted self-help entrepreneurship for state-directed ameliorative economic projects. Humanists and qualitative social scientists have brought critical perspectives to the demerits of African entrepreneurs and entrepreneurship. Consequently, this book will extrapolate the intricacies of this oldest form of activity, which is failing to take off and benefit Africans in terms of economic viability. The book explores the influence of corporate governance on the efficiency and sustainability of small business entities. Using various research approaches, this book examines how the challenges can be addressed by scrutinising the theories and philosophies of entrepreneurship governance and sustainability, business ownership and

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governance practices, as well as undertaking a critical and analytical appreciation of the performance and sustainability of entrepreneurship in Africa.

South Africa has many small entrepreneurial initiatives because Africans have always had an enterprising philosophy dating back to the period before colonisation. During the precolonial era in Africa, trade existed between the locals and the other nationalities, the most common being the Portuguese, as well as Asia and Europe. Considering this, one may wonder what is happening today. The trends and patterns of enterprise have not matured in terms of growth, form, structure and capacity, as well as the sustainable governance of small and medium enterprises (SMEs). A huge number of enterprises are dying in their infancy. There is a paucity of research that has explored the prospects of enhancing the sustainable performance of SMEs by means of embedding sound corporate governance principles and practices. Using theoretical and empirical research, this book hopes to explore ways that the governance and sustainability of SMMEs can be enhanced to promote the economic well-being of the citizens of South Africa. This book is arranged into three themes, namely: theories and philosophies of enterprise governance and sustainability; ownership, governance practices and their implications for sustainability, and the performance and sustainability of entrepreneurship.

Firstly, Part 1 examines the theories and philosophies of SME governance and sustainability. This theme explores the intricate relationships between entrepreneurship, corporate governance and the sustainability of small business entities. A lack of economic development in Africa continues amid a growing ideology that SMEs are drivers for economic growth, suggesting that no country can achieve economic growth in the absence of building sustainable small enterprises. The urgent need for economic growth warrants the necessity to ensure that comprehensive approaches for enhancing the sustainability of SMEs are explored. Against this backdrop, this chapter proposes that the promotion of corporate governance in SMEs may result in maximising wealth creation and the sustainability of enterprises. Chapter 1 examined corporate governance practices that promote the sustainability of SMEs in South Africa. Through theory synthesis, the study identified inadequacies in the theorisation and conceptualisation of SMEs, which prompted the introduction of corporate governance as a new theoretical principle for foregrounding sustainability in small business entities. In Chapter 2, SMMEs and their role in South African economic development were explored. The chapter highlighted the importance of SMMEs in addressing converging social and economic development challenges such as unemployment, inequality and poverty reduction. A paradigm shift towards an *Utu, Unhu-Ubuntu* entrepreneurship

model was proposed in Chapter 3. This chapter advocates for reimagining SME theories to embrace the Ubuntu philosophy thereby embodying sustainable practices in the thinking and operations of small enterprises.

Secondly, Part 2 aims to explore ownership and governance practices and their implications for the sustainability of SMMEs. This theme draws on various literature and theories from the fields of finance, management, and entrepreneurship. It examines aspects of ownership, governance structures, corporate governance practices, as well as control and management approaches across different types of entrepreneurial firms. Additionally, the implications for the sustainability of these firms will be discussed. Chapter 4 provides an insight into family-owned businesses, focussing on growth and sustainability. Chapter 5 investigates survivalist microenterprises and informal businesses. The challenges hindering the sustainability of survivalist microenterprises are identified and a discussion is conducted on how the adoption of corporate governance may enhance their sustainability.

Lastly, Part 3 aimed to unravel the nuances of performance and sustainability in SMEs. The sustainable performance of entrepreneurial firms is central to the social and economic well-being of both national and global citizens. Efficient entrepreneurial performance leads to increased productivity which in turn generates economic growth and development at the national level. The various factors likely to have a significant effect on the performance of entrepreneurial firms are discussed theoretically and empirically under this theme. Chapter 6 explored the challenges facing the sustainability of small and medium-sized tourism enterprises (SMTEs). The findings of the study revealed the perceived obstacles hindering tourism enterprises in the Amathole District Municipality of the Eastern Cape province from achieving successful survival and growth. Possible ways in which the integration of corporate governance may promote the sustainability of SMEs in the tourism sector were discussed. In Chapter 7, a conceptual analysis of government policies on the sustainable development of SMMEs was conducted. The government policy aimed at promoting the sustainability of SMEs was examined, highlighting challenges associated with policy intervention. Recommendations for enhancing the sustainability of SMEs were also provided. Chapter 8 explored the pitfalls weighing down the development of sustainable entrepreneurial governance and culture among South African youths. Eclectic contexts constrain factors such as entrepreneurial culture, gender disparity, patriarchy and adult condescension in South Africa. Start-up ethical values were identified and discussed. In Chapter 9, the financial management practices of SMEs were examined. A lack of access to finance and inadequate management skills were identified as key contributors to the failures of small business entities. Possible ways in which the integration of corporate governance may

promote the sustainable development and growth of SMEs were outlined. Chapter 10 focused on examining sustainable entrepreneurship performance through the adoption of sound corporate governance practices. A conceptual analysis of SMEs was conducted using existing metrics and concluded with recommendations on how corporate governance may strengthen the sustainability of SMEs.

**Part 1**

**Theories and philosophies  
of entrepreneurship  
governance and  
sustainability**



# Corporate governance practices for promoting sustainability of small and medium enterprises

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## ■ Abstract

Theory synthesising has received little attention in developing a corporate governance-driven understanding of small and medium enterprises (SMEs) sustainability. Small and medium enterprises are recognised as strategic drivers of economic development; hence, it is imperative to understand the theoretical and conceptual principles underlying the sustainability of small business enterprises. It has emerged in the literature that SMEs continue to experience a high rate of failure despite the availability of myriads of support aimed at promoting the sustainability of small business enterprises. This context raises questions about the adequacy of the conceptualisation and theorisation of corporate governance practices of SMEs and their sustainability. Through a theory synthesis research design, this conceptual

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study examined corporate governance practices for promoting the sustainability of SMEs. Findings revealed the existence of a conceptual and theoretical gap in knowledge about the relationship between corporate governance and the sustainability of SMEs. The identified problem justified the introduction of corporate governance as an alternative theory for developing the sustainability of SMEs. Findings from the theory synthesis suggested the existence of inadequacies in the theorisation and conceptualisation of SMEs' sustainability. Theory synthesis assisted in explaining the theoretical and conceptual relationship between SMEs' corporate governance practices and sustainability. Evidence found in this study leads to the conclusion that corporate governance promotes the sustainability of SMEs through the adoption of structures, processes and systems that promote accountability, fairness, responsibility and transparency in the social, economic and environmental operations of the small business entity. The study thus developed and recommended a framework for adopting corporate governance practices for promoting the sustainability of SMEs. The framework delineates and outlines corporate governance as an integral practice for promoting the sustainability of SMEs. The framework is recommended for use by policymakers and scholars interested in adopting corporate governance practices to promote the sustainability of SMEs.

## ■ Introduction

This study inaugurates a dialogue about the theorisation and conceptualisation of corporate governance practices for promoting the sustainability of small, medium and microenterprises (SMMEs). Small and medium enterprises (SMEs) are recognised as an integral part of economic and social development policy in any economy (Organisation for Economic Co-operation and Development [OECD] 2022; World Bank 2022). As a result, the World Bank (2022), European Union (EU) (2023), OECD (2022) and Southern African Development Community (SADC) (2023), among many other bodies, continue to provide support to promote the sustainable development of SMEs. Notwithstanding the ubiquitousness aids, empirical evidence globally reveals that SMEs continue to experience of high failure rate and discontinuity (Global Entrepreneurship Monitor [GEM] Report 2022; National Integrated Small Enterprise Development [NISED] 2022). The major problem emerging from empirical trends indicates that there is persistent failure of SMEs despite the availability of myriads of global and national institutional support provided for many years to promote their sustainability. Arguably, these dichotomies warrant an exploration into corporate governance practices for promoting the sustainability of SMEs

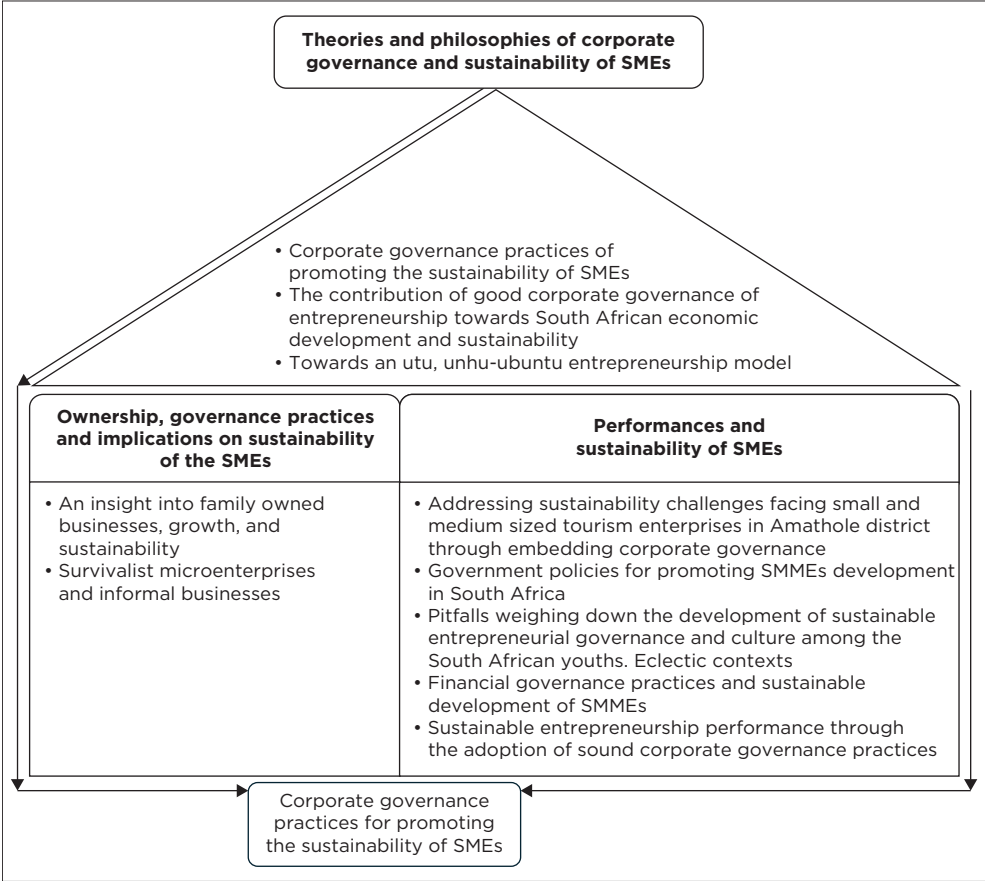
(Department of Small Business Development Republic of South Africa 2022; South Africa 1996).

Corporate governance refers to the way an organisation is directed and controlled (Cadbury Report 1992). King Report (2009, 2016) elucidates that corporate governance reinforces corporate sustainability through embedding principles that promote effective control, ethical leadership and sustainable economic, social and environmental performance of the firm. Finance theorists Berle and Mean (1932) and Friedman (1954) conceptualised corporate governance as an internal control mechanism that maximises value creation of the invested capital through managing and minimising conflicts that arise from the separation of ownership and control. Scholars attested that corporate governance influences the sustainability of the firm through its impact on the operational performance and profitability of the entity (Berle & Mean 1932; Friedman 1954; Keasey, Thompson & Wright 1997; La Porta et al. 2002; Shleifer & Vishny 1997). This suggests that the sustainability of any enterprise is dependent on corporate governance. Presumably, if corporate governance is necessary for the sustainability of large companies, then it follows that it may also be crucial for sustaining the growth and development of SMEs (Republic of South Africa 1995). Although corporate governance is predominantly applied in large corporations, its adoption is not only at a nascent stage in SMEs, but the forms of ownership, governance and management of these entities also differ significantly from those of large companies. A broad understanding is required to understand the promotion of the sustainability of SMEs (Enaifoghe & Vezi-Magigaba 2023; Peters & Naicker 2013; Zide & Jokonya 2022).

Abor and Adjasi (2007) aver that corporate governance embeds structures, processes, practices and principles that harness and foster improved performance and sustainability of the entity. Corporate sustainability assists a company in developing its sustainability footprint, enhancing its value creation and overall performance (Ajeigbe & Ganda 2023). Kocmanová et al. (2011) recommended that corporate governance strengthen the development and implementation of business strategies that consider the interest of multiple stakeholders, integrating environmental, social and economic factors. In this regard, the central research question that arises is could corporate governance practices promote the sustainability of SMEs? The major research objective of this study is thus to explore whether corporate governance can promote the sustainability of SMEs. Findings from studies in the various chapters of this book potentially have relevance to government policymakers, researchers and practitioners interested in promoting the sustainability of SMEs. It is thus imperative to conduct this study.

The purpose of this book is to explore corporate governance practices for promoting the sustainability of SMEs. It is necessary to write this book because knowledge about corporate governance and the sustainability of SMEs exists in silos because of the multi-fragmented nature of disciplinary knowledge. A book thus creates an opportunity for building a better comprehensive understanding of a given phenomenon than other research forms such as articles and journals. The book is divided into three themes, each with specific chapters, as shown in Figure 1.1.

Figure 1.1 shows the three key themes and chapters, making this book entitled: *Corporate governance practices promoting the sustainability of small, medium and microenterprises in South Africa*. The three themes of the book are namely, theories and philosophies of corporate governance



Source: Author's own work.  
Key: SMMEs, small, medium and microenterprises, SMEs, small and medium enterprises.

**FIGURE 1.1:** Outline of themes and chapters of the book.

and sustainability of SMMEs; ownership, governance practices and implications on sustainability of the SMMEs as well as performance and sustainability of SMEs. Overall, the book is based on the assumption that the theories and philosophies of corporate governance and sustainability adopted shape the ownership, governance practices and sustainability of SMMEs, which in turn affect their performance and long-term viability (Zahra et al. 2007). As a result, this book provides a broader exploration of corporate governance practices aimed at promoting the sustainability of SMMEs across ten chapters. While subsequent chapters shall explore other aspects of the research problem under investigation in this book, the primary objective of Chapter 1 is to explore the corporate governance practices for promoting SMEs' sustainability. Chapter 2 examines the role of corporate governance in entrepreneurship and its impact on South African economic development and sustainability. It will discuss the potential of adopting an Ubuntu entrepreneurship-driven corporate governance model. Corporate family-owned businesses, survivalist microeconomic and informal businesses, and small and medium-sized tourism enterprises (SMTEs) will be explored as these are common forms of ownership of SMMEs in South Africa (Naldi et al. 2007). Subsequent chapters will examine and provide insights into government policies supporting SMMEs, dynamics disrupting the entrepreneurship culture, sustaining entrepreneurial performance and the financial performance of SMEs through the adoption of corporate governance (Maranga 2014). A detailed discussion of the concepts and matters covered in the other chapters is beyond the scope of this study. The remaining section delves into corporate governance practices that promote the sustainability of SMEs.

## ■ Definition of a small business and owner self-governance dilemma

Small businesses have a distinct anatomy that inherently imposes informal management and governance systems. The Bolton Committee Report (1982) states that:

We define a small firm, generically, in terms of three main characteristics: firstly, in economic terms, a small firm has a relatively small share of its market. Secondly, an essential characteristic is that it is managed by its owners or part-owners in a personalized way and not through the medium of a formalized management structure. Thirdly, it is also independent in the sense that it does not form part of a larger enterprise and that the owner-managers should be free from outside control in taking their principal decisions. (p. 3)

Hakimah et al. (2019) assert that SMEs and small businesses are governed and managed by their owners by virtue of being self-funded by their owners. Informal ownership SMEs lead to self-owner management and governance practices within small business entities. This suggests that it is

the owner's knowledge, competency and talents that determine the control, governance and management practices employed in SMEs rather than corporate governance as in corporate companies. Taken together, this means that the sustainable performance of an enterprise is dependent on the governance and management capabilities of its owners instead of corporate governance principles. Wen et al. (2023) elucidate that corporate governance promotes firm sustainability through embedding inbuilt sustainable internal practices and processes. It is evident that ontologically, the notion of corporate governance holds no practical epistemic relevance to the form of ownership, governance and management approaches of small business entities. Considering the epistemic gaps and ontological conflicts discussed in this section, it is questionable whether the sustainability of SMEs will be achieved through owners' self-governance and management practices without the implementation of effective corporate governance.

## ■ Landscape of sustainability of small and medium enterprises in South Africa post-1994

Historically, the South African government's institutional support for SMEs started with, among many other initiatives, the introduction of the National Small Business Development Strategy (NSBDS) in 1995, which outlined government support provisions for SMEs in South Africa. The NSBDS was further supported by the promulgation of the *National Small Enterprise Act of 1996* aimed at creating an enabling legislative and regulatory environment for the sustainable development of SMEs. The integrated Strategy for the Promotion of Entrepreneurship was established to provide policy guidelines and strategic support for the operations of SMEs. The White Paper (1995) was another policy document outlining the government's framework for supporting SMEs, which included enacting the *National Small Business Act* to establish an enabling legal environment for SMEs. It is evident that multiple government support was provided to support SMEs in South Africa post-1994. It, however, appears that the government's policy goal of supporting SMEs' sustainability has yielded less than the desired effect. An impact evaluation study of government support from 1994 to 2003 conducted by Rogerson (2004) concluded that SMEs failed despite the support provided for those initial 10 years. National Integrated Small Enterprise Development (2022) asserts that the government's attempt to promote SMEs from 1994 to 2022 has achieved minimal desired outcomes because many small firms continue to fail and lack sustainability. Global Entrepreneurship Monitor (2022) also confirmed the continued disproportionate failure of SMEs in South Africa.

The observed lack of sustainability of SMEs has broad implications towards the attainment of the development strategy and the wellbeing of the economy. In South Africa, the National Development Policy (2012) and NISED (2022) envisaged SMEs as a development strategy for addressing the national socio-economic challenges of job creation, poverty alleviation and transforming resource distribution. A report from Statistics South Africa (StatsSA) (2023) shows that unemployment, extreme poverty and deepening inequalities are on the rise in South Africa. These ills adduce evidence that SMEs have not been sustainable to reach a stage where they could effectively contribute towards addressing social and economic development in South Africa.

To strengthen its support for SMEs in pursuit of its development policy goal, the South African government reformulated an integrated framework for supporting the sustainable development of SMEs. The NISED Masterplan as a strategic framework aims to 'support sector plans for SMEs growth and works in association with all other government planning and programming relevant to building an enabling environment for SMEs and economic growth' (NISED 2022, p. 21). National Integrated Small Enterprise Development (2022) constitutes a paradigm shift in the focus of its strategy on expanding the prior government policy through an integrated approach that accelerates small enterprise growth and expansion. Although the NISED Masterplan focuses on providing integrated institutional support, it overlooks the adoption of corporate governance in SMEs as a strategy for promoting sustainability (OECD 2023).

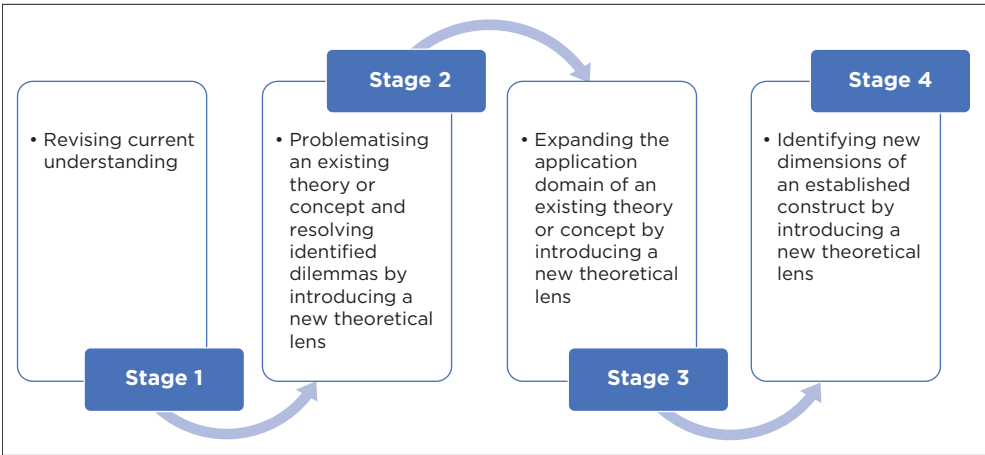
The persistent failure of SMEs despite the availability of a multitude of institutional support raises questions about the adequacy of institutional policy support alone to promote the sustainability of SMEs in the absence of corporate governance in their operations (Ropega 2011). Tuner (1998) cautions that the failure to synthesise information has adverse impacts on policymaking and outcomes. Tuner (1998) further recommends theoretical synthesis as the foundation for strengthening practical relevance. Similarly, George (1993, p. xix, xxiv), cited in Nye (2008), avows that while 'scholars may not be in a good position to advise policymakers how best to deal with a specific instance of a general problem that requires urgent and timely action', 'they can often provide a useful, broader discussion of how to think about and understand that general problem'. Both Tuner (1998) and George (1993) underscore the importance of understanding the theorisation of a given phenomenon for informed policy, theory and practices. Reflecting on such counsels, albeit with precaution, this conceptual study undertook the obligation to investigate corporate governance practices for promoting the sustainability of SMEs using a theory synthesis.

# ■ Research design

This study deemed a theory synthesis as the most appropriate research design to guide this study because of its conceptual prowess. Jaakkola (2020) identified the theory synthesis approach as having the capability to provide grounds for conceptual integration across fragmented disciplinary knowledge, thereby creating a more parsimonious explanation that pulls disparate elements into a more coherent whole. Figure 1.2 presents the theory synthesis stages that guided this study.

## ■ Theory synthesis of four stages

Figure 1.2 shows the four stages of the theory synthesis approach. To achieve the study’s primary objective, this research followed the four stages of the theory synthesis research design guidelines recommended by Jaakkola (2020). As shown in Figure 1.2, Stage 1 begins with revisiting the existing theoretical and conceptual understanding of SMEs. Stage 1 provides an opportunity for conceptual gaps to be identified. Subsequently, Stage 2, focused on problematising the existing theory or concept to identify dilemmas that justify the introduction of a new theoretical lens for resolving the deemed gaps. Stage 3 expanded the application domain of existing theories or concepts by advancing the new theoretical lens. Lastly, Stage 4 identified new dimensions of an established construct by conceptualising a new theoretical lens to extend the existing understanding. In this study, a new corporate governance conceptual framework for promoting the sustainability of SMEs was developed and recommended.



Source: Researcher’s conceptualisation based on theory synthesis research design adapted from Jaakkola 2020, p. 22.

**FIGURE 1.2:** Theory synthesis of four stages.

## ■ **Stage 1: Revisiting existing theoretical and conceptual paradigms for the understanding of small and medium enterprises**

This section aims to clarify the theoretical and conceptual relationship between corporate governance and the sustainability of SMEs. Understanding this relationship is essential for identifying any gaps between policy support, theory and practice. This conceptual analysis serves as a foundation for unravelling any existing misunderstandings of the phenomenon.

### ■ **Small and medium enterprises as strategic drivers of development policy goals**

Small and medium and enterprises are recognised as strategic drivers for economic and social development policy goals in any economy. The World Bank (2022) report reveals that SMEs comprise 90% of all businesses, account for about 50% of all jobs globally and contribute approximately 40% of the gross domestic product (GDP) in emerging economies. The World Bank's findings affirm the assumptions of the Bolton Report (1971) that SMEs are drivers of economic development in any economy. As a result, the World Bank (2022) emphasises the sustainable development of SMEs as foundational pillars for economic development, particularly in emerging nations. Likewise, the OECD (2022) highlighted the strategic role of SMEs in economic development. The OECD (2022) report reveals that SMEs constitute 95% of businesses and 60% to 70% of jobs in OECD nations. Similarly, the EU (2022) acknowledged that SMEs employ more than 100 million individuals in the region, and those businesses also contribute to more than half of Europe's gross GDP. This demonstrates the extent of SMEs' impact on social and economic development in the EU countries. The South African government also recognises SMEs as a national development strategy for fostering inclusive social and economic growth and transformation (National Development Plan 2012; NISED 2022; White Paper 1995). Small and medium enterprises play a key role in the economic development of an economy (Ajeigbe & Gand 2023; Dhondge 2023; Singh & Rastogi 2023; Wen et al. 2023). The highlighted strategic contribution of small businesses to economic development in both developed and developing countries underscores the importance of strengthening the sustainability of SMEs in any country.



## ■ **Institutional policy and support initiatives for sustainable development of small and medium enterprises**

Multiple global and national institutional support initiatives are available for ensuring the sustainable development of SMEs. The World Bank (2022) continues to pursue the development and implementation of intervention strategies aimed at addressing the challenges of the high failure of SMEs. The World Bank's (2022) strategies for strengthening the sustainability of SMEs primarily focus on promoting access to finance, consultations and advising. The scope of support provided by the World Bank (2022) includes designing an enabling environment for credit schemes, improving credit infrastructure, introducing innovative SME finance platforms, and conducting analytical activities for finance and lending operations, among others. Undeniably, such institutional support strategies are crucial for strengthening the sustainability of SMEs. It is puzzling why such intervention mechanisms seem to yield little success in harnessing and fostering the long-term prosperity of SMEs in developing countries, particularly in the South African context.

The OECD (2022) advocates for mitigation of adverse consequences of sustainability challenges faced by SMEs before the epidemics, which were subsequently compounded by the pandemic. The OECD-initiated SME and Entrepreneurship Strategy outlines the guidelines for strengthening the sustainable development of SMEs in their member states to promote regional development through small business entities (OECD 2022). The OECD SMEs and Entrepreneurship Strategy provides guidelines for SME policies and entrepreneurship by focusing on three principles: policy coordination and governance, transition and resilience, and access to resources. The OECD SMEs and Entrepreneurship Strategy does not include corporate governance to foster sustainable development of SMEs, although literature recognises it as a determinant of firm sustainability. Perhaps corporate governance may have been excluded because the existing governance and management of SMEs might be perceived as adequate to engender sustainability of the small entities.

The EU (2022), motivated by the strategic importance of small enterprises to regional development, developed an SME Strategy for a sustainable and digital Europe. The EU's SME strategy focuses on 'capacity-building and support for the transition to sustainability and digitalisation, reducing regulatory burden, improving market access, and improving access to financing' (EU 2022). An analysis of the intervention policy and strategy scope reveals that the approaches focused on strengthening internal operational and process mechanisms and providing external support.

The scope of the foregoing strategies adopted by the various institutional bodies does not extend to embedding sustainability through incorporating corporate governance practices in SMMEs. Berle and Means (1978) and Tricker (1984) theorised the prominence of corporate governance in enhancing enterprise sustainability. Organisation for Economic Co-operation and Development (2015) describes corporate governance as consisting of structures that demarcate the relationships between the enterprise and its stakeholders to promote the firm's sustainability. The absence of internal governance systems that foster sustainability is likely to culminate in unstable operational practices within SMEs. The central question that emerges is whether the availability of support alone in the absence of corporate governance practices is sufficient to promote the SMMEs' continued existence and growth.

The sustainability of SMMEs continued to be very low despite the availability of myriads of institutional support available for these entities. The findings from the GEM reports conducted over the past 20 years, from 2003 to date, reveal a recurring phenomenon of a large gap between Total Early-Stage Entrepreneurial Activity (TEA) and Established Business Ownership (EBO). This means that although many small enterprises are started, they die prematurely. The GEM (2023) found that the percentage of entrepreneurial start-ups that survive for more than 3.5 years is low, although there is a high initial rate of entrepreneurship. This means that most small business entities are failing to survive past their start-up stage. The substantive lack of sustainability because of the persistent failure and discontinuity of SMEs has been observed in many studies (see Kim 2022; Matashu 2010; NISED 2022; Rogerson 2004; Williams 2014a, 2014b; World Bank 2022). The observed colossal discontinuity of SMMEs is paradoxical, given the abundance of support for their sustainable development. Wen et al. (2023) point out that SMEs exist in distinct political, social, environmental and economic contexts; hence, their challenges differ. The disproportional failure of SMEs further justifies the need to re-evaluate and negotiate the theoretical tenets underlying existing strategies used to support the sustainability of entrepreneurial firms.

## ■ **Fragmented small and medium enterprises, corporate governance and sustainability knowledge disciplines**

The body of knowledge on corporate governance, SMEs and sustainability originates from different disciplines. The fragmented and distinct areas of knowledge, while useful for broadening our understanding of different concepts, may not be effective in building a comprehensive understanding

of the possible connections between corporate governance practices implemented in SMEs and their sustainability. The concept of sustainability has its origins in the environmental studies discipline. The term sustainability is derived from the concept of sustainable development as conceived by the World Commission on Environment and Development (WCED): Our Common Future Report (1987). The WCED (1987) described sustainable development as principles that recognise that the needs of the present generation should not compromise the ability of future generations to meet their own needs. The concept of sustainability focuses on achieving the long-term viability of an entity. The methods by which sustainability should be achieved in SMEs are subject to differing theoretical perspectives, and a comprehensive discussion of these perspectives is beyond the scope of this study. However, this study presumes that the adoption of corporate governance in SMEs could enhance the sustainability of these entities.

Corporate governance embeds sustainability in an entity. Achim, Văidean and Safta (2023), Enciso-Alfaro and Garca Sánchez (2023) and Onesti and Palumbo (2023) confirm that corporate governance engenders sustainability within the organisation through its impact on the performance of the enterprise. Corporate governance, in accordance with King (2009), embodies ethical leadership practices founded on accountability, fairness and responsibility in guiding the business strategy to achieve sustainable social and environmental economic performance. Because SMEs play a significant role in the economic growth of countries, developing a unified theoretical understanding of corporate governance practices is important for enhancing sustainability. Currently, the existing fragmented disciplinary knowledge about corporate governance, SMEs and sustainability does not contribute to a comprehensive understanding of the sustainability of SMEs. This fragmented nature of knowledge may explain the limited understanding of the interplay between corporate governance and the sustainability of SMEs (Abor & Biekpe 2007).

## ■ **Epistemic dissonances and absence of corporate governance in small and medium enterprises**

Hove-Sibanda, Sibanda and Pooe (2017) found that South African SMEs implemented poor corporate governance practices. This indicates that there is weak corporate governance in the management of small business entities. Although owner governance promotes autonomy and flexible decision-making, these attributes are nonetheless disconnected from corporate governance principles that enforce sustainable practices within the firm. Therefore, imposing corporate governance without reimagining its connections to SMEs' sustainability would be a mere violent epistemological disruption act that risks compounding the failures of these entities.

This suggests that alternative approaches should be developed to inculcate a culture of embedding sustainable thinking in the management and governance of SMEs. There is empirical evidence that corporate governance fosters sustainable practices, performance and strategies (Naciti & Pulejo 2021; Sharma & Khanna 2014).

The philosophical and theoretical foundation of corporate governance was expounded by Smith (1777), who posited that the way enterprises are run impacts the development of economies and countries. The theoretical and practical implications were further developed by Berle and Means (1932), who introduced agency theory to conceptualise the principles underlying corporate governance. Agency theory presents corporate governance as a mechanism for promoting the long-term survival of the firm by addressing the agency problem that arises from the separation of control and ownership. The empirical and practical foundations were further advanced by Jensen and Meckling (1976), who examined corporate governance as a means of ensuring sustainability through effective governance of the firm. These theoretical and practical implications indicate that corporate governance mediates enterprise sustainability through embedding sustainable governance of internal practices. It appears that the self-ownership, control, governance and management structures of SMEs are inconsistent with the corporate governance principles, practices and processes that foster the sustainability of the enterprise. The dilemma of weak corporate governance practices, which hinders sustainability within all the internal processes of SMEs, is likely to explain the failed growth and survival of these entities. Günay and Apak (2014) and Sarah (2017) assert that corporate governance promotes sustainable financial performance in firms. However, the principles underlying the self-management and governance structures of SMEs are inherently incompatible with the theoretical and conceptual foundations of corporate governance practices. This further justifies the use of theory synthesis as the most appropriate research design to address the epistemological dissonances.

## ■ **Epistemic, theoretical and conceptual gaps in the existing understanding of small and medium enterprises and their sustainability**

All matters discussed thus far lead one to believe there is an epistemic gap that explains the existing conundrum of promoting the sustainability of SMEs through the adoption of corporate governance practices. Historical reflections written by Bolton (1982) show that the concept of SMEs first emerged in the Bolton Committee Report (commonly referred to as the Bolton Report), published in 1971. Bolton (1982) built upon the Bolton

Report of 1971 to advance the idea that expanding small enterprises is the only way to address the social and economic challenges faced in the United Kingdom (UK) during that time. Since the conception of the Bolton Report, the notion that SMEs are key pillars of economic development has gained prominence in policy decisions and research. Bolton (1982) raised concerns about the lack of education and training dedicated to small businesses in the UK until 1971, attributing this to a major factor hindering a complete understanding of these entities. From this historical context, it can be inferred that there may be inherited epistemological knowledge gaps regarding SMEs and their sustainability. Should this assumption be valid, then such epistemic gaps possibly contributed to the limited understanding and subsequently the failed capacities for integration and expansion of new concepts to build an integrated understanding of governance and sustainability of SMEs. Unfortunately, the implications of the absence of research on small enterprises proffered in Bolton's (1982) towards the building of a comprehensive understanding of the sustainability of SMEs are underexplored in literature.

Gaps in knowledge about SMEs' sustainability are attested by the continued manifestation of several shortcomings. The lack of information, knowledge, competences and skills is impeding the sustainable development of SMEs (Wang et al. 2023; Yusoff et al. 2018; Zhang et al. 2022). The prevalence of misunderstanding about sustainable development and the growth of SMEs occurs in the backdrop of preexisting epistemic gaps. Such deficiencies in prior knowledge about small businesses supposedly contributed to the limited understanding of the interrelationship between corporate governance and sustainable small entities. It can be concluded that the absence of prior knowledge supposedly widened the gaps for posterior knowledge creation which is necessary for building an understanding of the linkages between corporate governance and SMEs' sustainability.

## ■ Stage 2: Problematising an existing theory or concept and resolving identified dilemmas by introducing a new theoretical lens

All matters discussed in this chapter have affirmed the challenge of inadequate theorisation and conceptualisation of the sustainability of SMEs. These conceptual voids presumably explain the significant differences between desired sustainable policy outcomes and the observed outputs. 'The paradox of small and medium enterprises' sustainability' section examines the literature with the intention of problematising the existing conceptual or theoretical frameworks to support the introduction of a new theoretical lens.

## ■ The paradox of small and medium enterprises' sustainability

In the absence of corporate governance practices in SMEs, owner self-governance of small enterprises may have contributed to weak internal governance and the subsequent prevalence of high failure rates and discontinuity among small business entities. Several studies have found that poor management, administration and governance are major factors hindering the growth, survival and sustainability of SMEs (Achim et al. 2023; Asiiimwe 2017; Enciso-Alfaro & Garca-Sánchez 2023; Naciti, Cesaroni & Pulejo 2021). It is evident that the effectiveness of the internal governance systems and practices of SMEs has a significant impact on the sustainable development and growth of small enterprises.

For instance, in a study that looked at data from 13,000 failed SMEs in the United Kingdom, Williams (2014a) found that a lack of resources is the primary factor contributing to the failure of SMEs. Williams (2014a) further recommends that the availability of adequate provision of resources would enhance the survival, growth and sustainability of SMEs. Williams (2014b) observed that SME failure is influenced by firm size. El-Sady, Ahmed and Hamdy (2022) identified financial management practices as a factor affecting SMEs' performance and overall sustainability. Several impediments hindering SMEs' sustainable development and growth include, among others, policy, human resource practices, management, leadership styles and data management (Kim 2022; Sony, Antony & Tortorella 2022; Zide & Jokonya 2022). Sustainability challenges faced by SMEs are predominantly endogenous.

Strategies for improving the internal systems with the view of promoting the sustainability of SMEs have been recommended, but seemingly to no avail. For instance, Chatzistamoulou (2023) used econometric approaches to examine data from 20,000 SMEs in the EU over the period 2015–2019, to investigate the use of digitalisation as a business strategy to enhance sustainability. Chatzistamoulou (2023) found that digitalisation enhances the competitiveness of SMEs and thus recommended that businesses adopt a productivity paradigm shift to adopt institutional frameworks that foster their resilience, flexibility and capabilities to integrate technologies. Findings from several studies affirmed innovation and technology as enablers that enhance SMEs' sustainability through improved productivity and performance (Agwaniru 2023; Almeida & Wasim 2023; Alzayani, Mohammed & Shoaib 2023; Haohan & Beinan 2023). Similarly, Haohan and Beinan (2023) implemented digital technology in SMEs. Similarly, Alzayani et al. (2023) proposed adopting technology strategies to promote SMEs' sustainability. Such evidence underscores the need for innovative operational business strategies as tools for building sustainable value

creation in SMEs. This demonstrates the complexity and multidimensional nature of fundamental obstacles encountered by SMEs.

Despite the well-documented internal challenges affecting sustainability, few studies have focused on examining the conceptual relationship between corporate governance and the sustainability of SMEs. Brunninge, Nordqvist and Wiklund (2007) advocated adopting the board composition, board sizes and top management to improve the performance of SMEs. Sarah (2017) affirms that corporate governance enhances the sustainability of SMEs. Small enterprises are undoubtedly distinct from businesses in form, nature and capital structure, among many other facets; hence, embedding corporate governance requires scientifically informed insights about the subject matter. Afrifa and Tauringana (2015) examined the connections between board size, chief executive officer's age and tenure, directors' remuneration and proportion of non-executive directors, and the performance of SMEs. Findings from studies that overlook the implications of the delimitations that SMEs are usually small in size and governed by ownership risk are not useful for the sustainability of small businesses. Günay and Apak (2014) and Sarah (2017) found empirical evidence that corporate governance enables continued firm performance. Kocmanová, Dočekalová and Němeček (2011) concluded that corporate governance is necessary for spearheading the development and implementation of business strategies that consider the interest of multiple stakeholders, integrating environmental, social and economic factors.

Corporate governance promotes SMEs' sustainability (Afrifa & Tauringana 2015; Brunninge et al. 2007; Sarah 2017; Singh & Rastogi 2023). Abor and Adjasi (2007) concluded that poor corporate governance could lead to business failure. Weak internal systems and processes, along with a lack of marketing, management and financial management skills, as well as limited access to resources, are major contributing factors to the failure of South African SMEs (Leboea 2017; Olawale & Garwe 2010; Van Scheers 2011). The established major obstacles challenging the sustainability and continuity of SMEs are internal governance and management suggesting that these entities must adopt corporate governance. Afolabi et al. (2023) argue that SMEs are hindered by several factors in adopting practices that promote their sustainability. Furthermore, Afolabi et al. (2023) identified a 'lack of resources and expertise, lack of clarity, knowledge gap, lack of perceived benefits, and voluntary approach of sustainability reporting practice' as major factors impeding the adoption of the sustainability approaches (Sony et al. 2022). This means that corporate governance might not be adopted to promote the sustainability of small business entities because of the perceived lack of benefits.

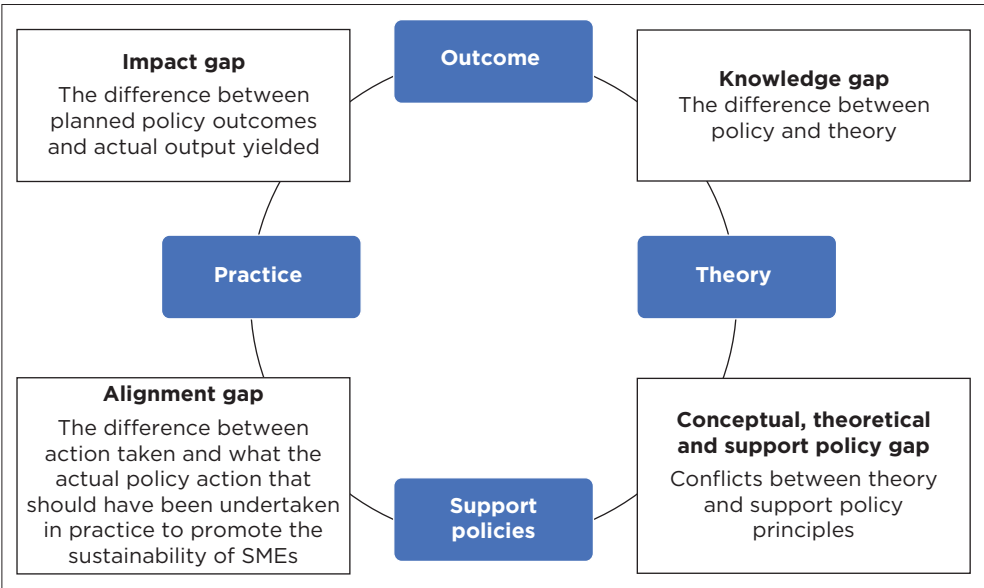


Another strand of literature perceives corporate governance as having multiple benefits for SMEs. Through a literature review of 115 articles from 1990 to 2020, Singh and Pillai (2022) advocate that designing cost-effective corporate governance in SMEs can lead to improved performance. This suggests that adopting corporate governance without the appropriate understanding can impose a burden on SMEs. Zhang et al. (2022) elucidate that SMEs' intentions to adopt sustainable practices are hindered by a lack of financial resources, technology and managerial competencies.

## ■ Existing gaps between governance for small and medium enterprises' sustainability and supporting policies

At this stage, this study concluded that there are gaps in knowledge between the policy support aimed at promoting the sustainability of SMEs, theory, practice and outcomes. This gap is summarised in Figure 1.3.

Figure 1.3 shows the gaps between theory, policy, practice and outcomes. The identified gaps assume that policies grounded on ideologies that disregard the role of corporate governance in fostering sustainability principles and practices in small businesses risk failing to achieve the desired outcomes. The figure shows that gaps in knowledge between



Source: Author's own work.

Key: SMEs, small and medium enterprises.

**FIGURE 1.3:** Gaps between theory, policy and practice.



theory and policy extent to influence the conceptual, theoretical and policy gaps subsequently lead to misalignment between support policy and practice gaps, ultimately leading to discrepancies between planned outcomes and actual output. Support for the assumption of this study depicted in Figure 1.2 is drawn from Afolabi et al. (2023) who observed the existence of some misalignment between government policy and the expected sustainability that the firm is driven to achieve. These inconsistencies justify an exploration of the possibility of whether adopting corporate governance practices could strengthen existing policy intervention measures to increase the sustainability of SMEs.

### ■ **Stage 3: Expanding the application domain of an existing theory or concept by introducing a new theoretical lens**

Through theory synthesis, stage 3 provides an opportunity to integrate the new dimensions of the established construct of sustainability of SMEs. The identified gap justifies the need to extend the existing limited understanding of SME sustainability by introducing a corporate governance theoretical lens into the subject matter.

### ■ **Deontological and utilitarian philosophy of small and medium enterprises' sustainability**

Adopting corporate governance as the channel for enhancing sustainability in the social and economic dimensions might be considered burdensome for SMEs, given the limited resources and self-management nature of these entities, unlike corporate companies. In this regard, the assumption that corporate governance embeds sustainability in SMEs submitted in this study is underpinned by tenets of the deontological and utilitarian philosophical paradigms. According to Mandal, Ponnambath and Parija (2016), in the utilitarian approach, decisions are derived from the assumed greatest common goods to be derived from the action to be undertaken. Mandal et al. (2023) explain that utilitarian ethics hold that the desired outcome justifies how it is achieved. In contrast, deontological ethics places greater emphasis on duties and obligations (i.e. the end may not always justify the means). Contextualising the conceptualisation of SMEs from the deontological and utilitarian ideologies entails that these enterprises have a moral and ethical obligation to adopt corporate governance to promote their sustainability for the social and economic benefits of their owners and broader society. In other words, in SMEs, sustainability through the adoption of corporate governance is for the common good of its owners and nation.

The idea of the common good is encapsulated in the qualitative definition of SMEs expounded by the Bolton Report (1971), World Bank (2022) and NISED (2022), among many others, whose definitions encompass the categorisation of their size based on the number of employees and annual turnover they generate. The existence of SMEs has mutual symbiotic benefits to the owner through providing a source of income, yet creating employment and contributing to national economic development demonstrate inherent deontological duties placed on these entities. If understood from the utilitarian perspective, adopting corporate governance for embedding sustainability practices can be considered the means to achieving a greater common good. In other words, the means justify the ends. Embedding corporate governance in SMEs should be grounded on understanding and considering the nature and purpose of these entities from both utilitarian and deontological philosophies. Brand (2006) and Wagner (2007) assert that, although the definitions of entrepreneurial firms differ, there is often a common emphasis on characteristics such as ownership, being owner-funded, owner-managed, governed, risk-taking and small size. The characteristic of SMEs manifests the vulnerability and possibly marks the point of departure for adopting corporate governance techniques. However, Lakehal, Davies and Di Stefano (2023) argue that corporate governance can ensure the dual responsibility of strategic decisions and responsibility towards sustainable performance, which is often challenging given the limited resources nature of small businesses. This suggests integrating corporate governance in SME practices is likely to promote sustainable strategy formulation, implementation and operations management.

## ■ **Stage 4: Identifying new dimensions of an established construct by introducing a new theoretical lens**

The final stage of the theory synthesis presented in this section of the study introduces corporate governance as a new theoretical perspective for promoting the sustainability of SMEs.

## ■ **Theorisation and conceptualisation of the integration of corporate governance practices to promote the sustainability of small and medium enterprises**

Stage 4 of the theory synthesis introduces corporate governance as a new theoretical dimension for embedding sustainability in SME practices. In this

study, the agency and stakeholder theory provide the theoretical framework for corporate governance practices of promoting the sustainability of SMEs.

## □ Agency theory

Agency theorists conceptualise corporate governance as a determinant of firm sustainability through its impact on the performance of the corporation (Berle & Mean 1978; Cadbury Report 1992; Friedman 1974; Keasey et al. 1997; La Porta et al. 1997; Shleifer & Vishny 1997). Proponents of the agency theory, like Jensen and Meckling (1976) and Fama and Jensen (1983), conceived corporate governance as a set of internal governance mechanisms that control and regulate how the company is directed to ensure the sustained survival of the corporation. Berle and Means (1978) posited the agency challenges that emerge from conflicts of interest that arise from the separation of ownership from control. If not monitored and controlled, the agency challenge may deter the survival of the organisation. Casco Paguay and Díaz (2023) adduce that corporate governance enhances the competitiveness and sustainability of small business entities in the global environment.

Lessons from the agency theory highlight the need for SMEs to consider separating the interests of the enterprises from those of the owners despite them being small. This means that through the adoption of corporate governance practices, SMEs could build sustainable internal systems and practices that strengthen the long-term viability and success of the entities. Wen (2023) observed that corporate governance enforces better operational strategies and internal control, thereby improving the growth and performance of SMEs and subsequently enhancing their internalisations. Abor and Adjasi (2007) elucidate the various advantages of corporate governance in ensuring sustainable internal operations in SMEs through improved management practices, internal auditing and a new strategic business outlook brought in by the board of directors. Wang et al. (2023) assert that corporate governance mitigates operational risks and strengthens shareholder and stakeholder relationships. This indicates that corporate governance is essential for ensuring the entity is governed sustainably.

## □ Stakeholder theory

Freeman (1984) contested the agency theory ideas that only focused on maximising profits for their owners proposing its extension to include both the benefits and impacts on the broader range of stakeholders affected by the business operations. Freeman (1984) cautioned against a narrow and

short-term-oriented approach focusing only on profit maximisation for the owners arguing that it would deter the long-term survival of the business entity. The stakeholder approach underscores the sustainability of the firm as grounded on balancing the interests of the owners of the business entity and those of its stakeholders. Thematic lessons that can be learnt from the stakeholder theory is that SMEs should guard against the pursuit of profit maximisation for their owners with a limited focus on the sustainable survival and growth of small business entities. Both agency and stakeholder theories adduce the idea that unstable business practices will lead to business failure. Solomon (2011) expounded that the narrow perspective of focusing only on profit maximisation for business owners was fast being discarded. This stakeholder theory perspective suggests that SMEs should consider extending beyond the agency theory oriented towards embracing their multiple stakeholders to become sustainable entities.

Wang et al. (2023, p.1) describe sustainable performance as the company's ability to achieve long-term success while minimising negative environmental and social impacts. Multi-stakeholder engagement is considered by Castellani, Rossato and Giaretta (2023), who explain that sustainable development of SMEs could be achieved through partnership with stakeholders to address context-based socio-economic challenges. Castellani et al. (2023) recommended sustainable value creation through SMEs using products and processes as multifunctional tools designed by multiple stakeholders. Small and medium enterprises' value creation from the stakeholder approach assumes that balancing the broader interest of the stakeholder is necessary for the long-term sustainability of the firm (Zhang et al. 2022). Although not explicitly explained in their study, it encapsulates the central idea espoused in sustainable value creation through a pluralist stakeholder approach. It enlightens us that managing multiple stakeholders' diverging interests embeds the fundamentals of sustainability and corporate citizenship, which are key corporate governance principles. The stakeholder theory emphasises the need for businesses to consider the impacts of their operations on multiple stakeholders. This indicates that focusing on only creating profits or economic benefits for the business owners is an unsustainable business approach (Kocmanova et al. 2011).

Because SMEs were conceptualised on a traditional business idea that seeks only to maximise the profits of the entrepreneur, that perspective must be revisited to promote the sustainability of these entities. Zhang et al. (2022) found that adopting stakeholders through corporate social responsibility as corporate governance overburdened SMEs and negatively affected their financial performance. Consideration of the agency and stakeholder theories provides the basis for SMEs to reconsider a paradigm

of their owner governance towards corporate governance for enterprise sustainability. Dhondge (2023) recommends that corporate governance is necessary for building trust with funders and further adds that small entities remain with many untapped, and it is crucial for them to adopt sound governance. It can be ascertained that a transformation from a traditional predominant informal governance and management mindset towards a corporate governance-driven structure, processes and procedures that promote sustainability through corporate citizenship is required by SMEs (Kyereboah-Coleman & Amidu 2008).

**□ Proposed conceptual framework of corporate governance practices for promoting sustainability of small and medium enterprises**

Cognisance should be taken to the ontological dilemma that SMEs are small, owner-managed and self-owned; hence, they are different from the corporation upon which the concept of corporate governance was founded. This implies that, unlike incorporated companies, which are expected to comply with corporate governance practices, SMEs are not bound to do so. This study proposed that depending on the size of SMEs in terms of the number of employees and revenue, they should adopt and implement corporate governance practices to build their sustainability on a flexible basis. Figure 1.4 shows a diagrammatic depiction of the proposed framework for integrating corporate governance practices to promote the sustainability of SMEs.

The proposed framework highlights the sequential conceptual relationship and the subsequent flow of corporate governance processes or procedures



Source: Author's own work.  
Key: SMEs, small and medium enterprises.

**FIGURE 1.4:** Proposed conceptual framework of corporate governance practices for promoting sustainability of small and medium enterprises.

that should be followed to build sustainable development of SMEs. The conceptual framework proposes embracing corporate governance values of transparency, accountability, fairness and responsibility in SME practices as the primary step towards creating sustainability. This step must be followed by adopting governance structures and practices such as risk management, auditing and board of directors, which may foster sustainability and corporate citizenship. Collectively, corporate governance may strengthen the endogenous operation and practices of SMEs. Ultimately, corporate governance harnesses and fosters the SMEs' economic, social and environmental sustainability. Corporate governance elements such as accountability and transparency enable the management, governance and financial performance of a firm to be measured (Wen et al. 2023). Risks can be mitigated timeously because of the presence of auditing and assurance systems (Nasrallah & El Khoury 2022). Studies have concluded that high performance, such as profitability, growth and competitiveness of the firm are fostered through the adoption of corporate governance values such as board structure, accountability and transparency, among many others (Dhondge 2023).

## ■ **Corporate governance principles, practices and sustainability**

Since the 1990s, several codes of good corporate governance practices and principles have been set rapidly (Cadbury Report 1992; King Report 2009, 2016; OECD 2015). Adopting corporate governance principles and practices is believed to protect the interests of the stakeholders and ensure the sustainability of the firm. Wang et al. (2023) explain that the need for transparency and accountability enhances the soundness of strategic decisions furthering the sustainability of the firm. Ajeigbe and Ganda (2023) concur that sustainability encompasses sustainable development through the integration of independence and interconnectivity between the economic, social, natural environment and human elements' interaction in the same environment. This suggests that SMEs' sustainability demands the formulation of sustainable economic, environmental and social sustainability strategies in contrast to the pursuit of self-owner-determined interests.

King Report (2016) reiterates that corporate governance is manifested through effective and ethical leadership that is responsible for directing the business strategy to achieve sustainable economic, environmental and social performance. The economic sustainability of the firm measures the long-term capabilities, among other aspects, such as profitability, maintaining market share and financial performance. Environmental sustainability encompasses business operations that protect the

environment while fostering long-term competitive advantage (Ajeigbe & Ganda 2023). The social dimension relates to all aspects that involve the wellbeing of society (Ajeigbe & Ganda 2023). If understood from tenets of the stakeholder theory perspective of corporate governance as theorised by Freeman (1984), sustainability embodies consideration of the broad impacts the business has on multiple stakeholders.

## ■ Corporate citizenship and sustainability

Fostering the sustainability of small businesses through incorporating sound corporate governance ensures the sustainability of the business. Wang et al. (2023) found that corporate governance mediates social responsibility, which enhances a firm's sustainability. Scholars suggest that sound corporate governance of SMEs can develop sustainability frameworks to understand sustainable business practices that enhance the long-term viability of these ventures (Ajeigbe & Ganda 2023; Castellani et al. 2023). The King Report (2016) recognises corporate citizenship as a tool for transforming business operations towards sustainable operations in the triple-bottom-line approach.

The corporate governance theoretical lens of sustainability embodies moral and ethical obligations for businesses to integrate social and environmental dimensions inclusively with their economic objectives. Bute-Seaton (2023) recommended that SMEs can establish sustainability through the interactions of business practices, systems and policies. Singh and Pillai (2022) cautioned that designing cost-effective corporate governance in SMEs can lead to improved performance. Small and medium enterprises should adopt corporate governance to strengthen their processes and internal systems.

Empirical evidence suggests that the main obstacles to the growth, development and long-term sustainability of small business entities include a lack of funding (World Bank 2022), a lack of generic management skills (Naciti et al. 2021), inadequate adoption of information and communications technology (Casco 2023), poor competitiveness (Van Scheers 2011) and a lack of digital strategies (Haohan & Beinan 2023). It also includes a lack of quality assurance (Ngwakwe & Ngoepe 2017) and a lack of innovations (Almeida & Wasim 2023). Ramakrishna, Alzoubi and Indiran (2023) identify the lack of sustainability strategies as a hindrance to the continuity of small entities. The obstacles highlighted previously suggest that the failure of SMEs is largely attributed to weak internal systems. Dzomonda (2022) observed that corporate governance mediates the connection between environmental sustainability to improve access to finances and subsequently enhance the financial performance of SMEs (Ismail & Wright 2022).



## ■ Governance and management structure

Grand theorists like Jensen and Meckling (1976) and Friedman (1954) long postulated the need for entities to have corporate governance principles, structures and processes that shape the way the company is controlled and directed to promote the long-term survival of the entity. Lakehal et al. (2023) recommended the adoption of corporate governance that consists of independent directors and diversified body composition as necessary for strengthening strategic decision-making in SMEs. Wen et al. (2023) found ‘a positive and significant association between the board of directors, disclosure, external auditing, and firm performance’. Wen et al. (2023) further found that concentrated ownership dominated by self-management negatively affected the performance of the firm and further recommended the need to adopt practices that enhance the performance and completeness of small businesses. According to Islam et al. (2023), through effective internal processes, corporate governance safeguards the value creation of the business, bolstering investors’ and financial institutions’ confidence in the firm to inject or loan funds to the business. Wen et al. (2023) concur that corporate governance provides an effective way to achieve the corporate strategy of the firm through established strategy-making structures and internal control mechanisms. Access to finance is necessary for boosting their development and improving productivity, given that most of them have limited sources of funds to stabilise and expand their business operations. Rachagan and Satkunasingam (2009) found the presence of corporate governance in ensuring the availability assurance and monitoring process that minimises fraud and self-dealing. Evidently, adopting corporate governance may address the governance and management weaknesses inherent in SMEs. Corporate governance will enable SMEs to establish formal governance and management structures, processes and procedures that promote sustainability through corporate citizenship.

The corporation has a board of directors who provide oversight of the organisation. Small and medium enterprises are mostly owner-governed, which, from the perspective of corporate governance, inherently embeds the unregulated pursuit of self-interest and risk of dominance in decision-making. Adopting a governance structure with independent individuals as non-executive directors enriches decision-making and the contribution of various knowledge, experiences and skills that may enhance the survival of the entity. Self-interest that arises from sole ownership results in maladministration of the resources, resulting in the failure of the entity.

## ■ Integrated sustainability report

A financial report is an element of the integrated sustainability report. Small and medium enterprises should adopt transparency and accurate



financial reporting to promote stakeholders. This means that SMEs can address challenges of a lack of financial management, skills and poor access to finance because of the absence of financial records through the implementation of strong internal processes and adherence to generally acceptable standards for accounting. Sustainability reporting relates to disclosing the environmental, social and governance practices and performance of the company to stakeholders. In their study, Mattei et al. (2023) found that sustainability reporting is still a significant challenge despite the numerous benefits of enhancing the competitiveness and sustainable performance of the firm. Improved awareness about sustainability reporting and identifying cost-effective solutions tailored to the needs of SMEs is necessary to enable them to address challenges and optimise opportunities of the sustainable path (Mattei et al. 2023). Da Porciúncula Júnior and Andreol (2023) highlight that the survival of a business entity is threatened if its practices are deemed to be a risk to society; subsequently, they recommended the adoption of simplified sustainability reporting to encourage SMEs to adopt sustainability practices.

## ■ **Embedding corporate governance to foster sustainability of small and medium enterprises**

Dhondge (2023) cautions that adopting corporate governance in SMEs should not be considered lightly, given that large corporations are already facing non-compliance challenges. Matashu (2016) advocates that if adopted and implemented effectively, corporate governance practices and principles are expected to enhance the integrity and efficiency of the organisation's operations in safeguarding the interests of stakeholders. Sustainable practices are achieved if integrated with the business strategies and operations of the SMEs (Da Porciúncula Júnior & Andreol 2023). This suggests that sustainability should be embedded in the behaviour of the organisation in its entirety; for example, products, processes, people and everything else. Sustainability can be embedded in SMEs through the adoption of various corporate governance practices, such as having a board structure, audit system, financial disclosure and more robust internal control systems (Wang et al. 2023; Wen et al. 2023). Sustainability encompasses adopting practices that enhance the economic, social and environmental aspects while promoting value creation both in the short-term and long-term goals of the business.

## ■ **Conclusion**

The continued failure of SMEs despite the availability of support informed the research problem investigated in this study. The objective of the study

was to explore corporate governance practices for promoting the sustainability of SMEs. Based on the findings from a theory synthesis approach, this study concludes that inadequacies existed in the theorisation and conceptualisation of SMEs, corporate governance and sustainability of SMEs that hampered an understanding of their co-existence. This study also concluded epistemic gaps in knowledge might have contributed to the limited inclusion of corporate governance in policy disregarding the integration of corporate governance within SMEs risk failing to achieve the intended policy outcomes of promoting the sustainable development of small enterprises. Drawing insights from the utilitarian philosophical paradigms, it is also concluded that adopting corporate governance promotes the attainment of the common good through promoting the sustainability of SMEs and subsequently enhances sustainable development. From foregoing moral and ethical obligations, it is concluded that the sustainability of SMEs must encompass the economic, environmental and social dimensions. They build sustainable practices by implementing corporate governance practices such as transparency, accountability, responsibility and fairness. Findings from the theory synthesis led to the conclusion that corporate governance enhances the sustainability of SMEs by embedding sustainable structures, operations, governance, management, processes and performance throughout the entity. In summary, this study affirms the premise that corporate governance practices promote the sustainability of SMEs.

## ■ Recommendations

In hindsight, the study draws recommendations that might potentially have practical relevance and implications for SMEs' owners, policymakers and scholars in the discipline. Theorisation and conceptualisation helped explain how corporate governance can enhance sustainability. Therefore, this study recommends that SMEs should prioritise adopting corporate governance to bolster sustainability practices in their strategy formulation, decision-making and operations. It is recommended that the tenets of corporate governance as delineated in the proposed framework should be adopted by SMEs on a flexible basis depending on their size and form of ownership. Policymakers interested in improving sustainability should consider using the proposed framework for corporate governance for guidelines on promoting the sustainability of SMEs. As discussed earlier in the Introduction, the aim of this book is to explore corporate governance practices that promote sustainability, which will be examined in subsequent chapters. Therefore, this book is recommended for researchers, policymakers, scholars and students of SMEs.



# The contribution of good corporate governance of entrepreneurship towards South African economic development and sustainability

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## ■ Abstract

In South Africa, microenterprises run by micro-entrepreneurs comprise mostly of the small businesses because of the relative lack of formal sector jobs available for the poor. They 'add value to a country's economy by creating jobs, enhancing income, strengthening purchasing power, lowering costs and adding business convenience' (Akinsanya & Alake 2012). Small business is the mainstay of the South African economy, and strengthening

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them is a way of alleviating poverty and unemployment. If 1 million small, medium and microenterprises (SMMEs) could each just employ one extra person, that would mean 1m new jobs. However, most of these microenterprises fail in the shortest stages of their life cycle because they lack corporate governance. The significance of corporate governance cannot be overstated, both for national development and sustainability and as part of international financial planning. It serves as a tool to address the converging concerns of competitiveness, corporate citizenship, and social and environmental obligation. This chapter examines the historical background of entrepreneurship in Africa with a focus on South Africa, with a view to establishing its contribution to economic growth. This chapter will delve into critical discourse analysis to critically describe, interpret and explain the ways in which discourses construct, maintain and legitimise social inequalities within South Africa. These thick descriptions find that integrating the role of corporate governance practices in the sustainability of entrepreneurial firms in the South African context is essential. Therefore, the study recommends good corporate governance should be applied in reinforcing the sustainable existence of enterprises in the emerging new global economy. The study also finds that the new global order calls for entrepreneurial firms and corporate governance to be recognised as strategic drivers of economic development in the South African economy. The researcher recommends that good corporate governance of SMMEs should be encouraged for the growth of SMMEs will place the country in a good position to achieve the 2030 National Development Goals as well as the United Nations-driven sustainable development goals.

## ■ Introduction

South Africa's current economic trajectory, according to the National Treasury's budget assessment for 2019, is unsustainable: growth has slowed, unemployment has increased and inequality remains significant. This implies that the government ought to put in place a set of measures that will strengthen South Africa's economy immediately while simultaneously creating the conditions for steady, long-term growth. The goal of these growth reforms is to encourage labour-intensive growth, facilitate economic transformation and develop a competitive economy on the global stage. According to Bvuma and Marnewick (2020, p. 1), small, medium and microenterprises (SMMEs) are critical to an economy's expansion. Prosperous economies across the globe have acknowledged the critical role SMMEs play in economic development and expansion. Small, medium and microenterprises are a vehicle that

allows individuals to participate in the African business which is dominated by informal businesses. Soon after South Africa's democratic transition, discussions continued regarding what would become the Trade Development and Cooperation Agreement (TDCA). Democracies supported the TDCA to facilitate civil liberties, such as the right to establish and run businesses. Entrepreneurs followed their business ideas without major interference from the government in democratic societies. Democracies with strong legal systems and property rights protection offer stable operating environments for businesses (Audretsch & Moog 2022). The businesses created on individual liberties are likely to stimulate economic growth.

Nemec, Ďuricová and Kubak (2023) proposed that transparency and unrestricted information flow are frequently emphasised in corporate governance. This can give business owners access to consumer preferences, market data and trends, enabling them to adjust their business strategies and make well-informed decisions. Looking back to 2012, when the final phase-down of South Africa's tariffs under the TDCA took effect, and against the backdrop of Europe's slowing economy following the 2008 global financial crisis, this reinforced the transition from a minor surplus in South Africa's favour to a significant deficit. In 2012, South Africa exported items to the European Union (EU) for R143 billion, while imports were at R238bn, resulting in an R95bn deficit in favour of the EU. By 2015, the disparity had risen to R104bn, with imports reaching R320bn and exports barely R216bn. Frozen potato chips, chicken products and a variety of other agro-processed products, including some with subsidised inputs, were among the 'new' imports flooding the South African market (Davies 2021). In Africa, South Africa contributes around 35% of intra-regional imports and 40% of intra-regional industrial imports. This company employs up to 200 individuals and has a yearly revenue of R64m. Based on the number of employees, it falls into the category of SMMEs. Hence, it is necessary for TDCA and small enterprise development agency (SEDA) to unveil such kind of information transparently to foster entrepreneurial endeavours which require creativity and innovation, in communities (Schleifer, Fiorini & Auld 2019). In this vein, entrepreneurship can promulgate the creation and development of original goods, services and business models. Davies (2021) posits that imperatively, entrepreneurs flourish in cultures that value diversity and encourage new ideas. This is supported by Williams (2019), who argues that entrepreneurship is a trust-based framework for urban and socioeconomic growth and advancement through enterprises operating in an unrestricted (i.e. more transparent) information society. Based on the previous facts, it is notable that entrepreneurship and good corporate governance are the key variables in a society's overall

prosperity, job creation, economic growth and innovation (these are indicators of the economic development of a nation).

According to Narula (2020), supported by Ohnsorge and Yu (2022), a significant portion of workers and businesses operate in the informal economy in emerging markets and developing economies. In countries like South Africa, Peru and Indonesia, this informal economy can account for as much as 80% of the population. As reflected by the observations from the findings of Narula (2020), Ohnsorge and Yu (2022) defined small enterprises as having 50 workers or less and a profit of R3m (agriculture) to R32m (wholesale trade, commercial agents and allied services) as advocated by *National Small Business Amendment Act* (NSBAA 2004). This type of business often operates from commercial or manufacturing bases, is registered and meets other formal revenue criteria (White Paper 1995). These businesses are typically scattered and clustered in urban areas and townships. In most cases, small businesses have a management structure in place and some level of managerial coordination (Roux 2002). Narula (2020) and Ohnsorge and Yu (2022) argue, in contrast to Roux (2002), that small businesses often lack a management structure and managerial coordination. The authors suggest that this chaotic approach to business does not contribute to economic growth and can lead to disorder in policy implementation (Andretsch et al. 2007). This situation highlights the need for effective corporate governance of SMMEs in South Africa to restore order and ensure the proper flow of resources to the state for revenue generation.

Medium-sized businesses employ up to 200 people and have annual revenue of R64m. Medium-sized businesses have a gross asset worth ranging from R3m (catering, accommodation and other trade) to R210m (mining and quarrying) (NSBAA 2004). There is also increasing decision-making decentralisation, a more complicated management structure and a higher division of labour (Roux 2002). Following a quick discussion of the many types of small businesses, it may be interesting to understand the number of such enterprises and their employees in South African businesses. Table 2.1 shows the number of firms and workers in each category.

In this case, the *National Small Enterprise Act* and its revisions refer to SMMEs as ‘small enterprises’ in general. Contextually, a ‘small enterprise’ is defined as a distinct business entity, including its divisions or affiliates, as

**TABLE 2.1:** Upgraded definition of small, medium and microenterprises in South Africa.

Enterprise size	Number of employees	Annual turnover upper band
Medium	< 250	R35–R220m*
Small	< 50	R15–R80m*
Micro	< 10	R5–R20m*

Source: National Integrated Small Enterprise Development Masterplan (NISED) 2022.

\* Industry dependent

well as cooperative enterprises. It is managed by one or more owners and operates primarily in any sector or subsector of the economy, as specified in Schedule 1 of the Act. One can justifiably say that the definition of SMME is based on the number of employees and annual turnover (Republic of South Africa 1996). The upper limit indicates that, depending on annual turnover, an enterprise can be volatile, fluctuating between micro and small categories for years if good corporate governance and sustainability measures are not implemented (Enaifoghe & Vezi-Magigaba 2023).

Comparatively, the given definitions proposed by the National Integrated Small Enterprise Development (NISED) Masterplan (2022) reflect different figures pertaining to number of employees in each category of SMMEs. This contradicts Table 2.1 and other definitions, leading one to justifiably argue that the upgrading of the given information demonstrates some growth in terms of turnover and employment capabilities of SMMEs over time. Small entities with 20, >10 and 200 employees are classified as small, micro and medium enterprises, respectively, while NISED (2022) upgraded these classifications to 50, >10 and 250 employees for small, micro and medium enterprises, respectively. In terms of turnover, the classifications are R3–R32m, >R5K–R1m and R3–R210m for SMMEs, compared to R15–R80m, R5–R20m and R35–R220m for SMMEs, respectively. Analytically, the growth pattern depicted in the different phases of growth of SMMEs from 2004 to 2022 may support the argument that SMMEs have been contributing to South African economic growth over time (Enaifoghe & Vezi-Magigaba 2023, p. 100). The role of SMMEs in economic development includes being the growth engine necessary for a competitive and effective market, a key to reducing poverty through job creation and particularly significant in developing nations.

## ■ Historical background of entrepreneurship in Africa

According to Baten (2016, p. 318), before the arrival of European settlers in the 14th century, people in South Africa engaged in enterprising subsistence agriculture and hunting. Echoing Hrbek and Muhammad (1988), Schlebusch et al. (2017) indicate that pre-colonial South African history, and by extension the larger Southern African region, spans from the Middle Stone Age to the 17th century. McBrearty and Tryon (2006) suggest that *Homo sapiens* originally arrived in Southern Africa either 130,000 or possibly 260,000 years ago. Southern African hunter-gatherers, known as the San, were referred to as Bushmen by pastoral neighbours, the Khoikhoi. The term Khoisan refers to South Africa's Pre-Bantu inhabitants (Daniels et al. 2023; Smith 1990). This term gained popularity in the early to mid-20th century and was coined around 1930 by Isaac Schapera. Thaler (2000)



asserts that these *Homo sapiens* were surviving and interacting within economic, social, religious and political contexts. Entrepreneurship existed during that time (Auerbach 2023). At the social interaction level, they represent the cultural evolution of cooperative norms regarding how business is conducted and an enterprise accountable to an inclusive group identity (Clark et al. 1966).

## ■ Entrepreneurship and economic development in South Africa

### ■ Entrepreneurship

According to Toma, Grigore and Marinescu (2014, p. 438), entrepreneurship is the process that involves the discovery, evaluation and exploitation of opportunities that lead to the introduction of new products, services, processes, ways of organising or markets. While, on the other hand (ed. Venter 2022, p. 29), entrepreneurship is considered ‘an individual’s creative capacity, independently or within an organisation, to identify an opportunity and to pursue it in order to produce new value or economic success’. This leads to the ability to connect all activities to generate profit and prosperity from labour, land, capital and, more recently, knowledge and technology (Alvarez & Barney 2020; Berger et al. 2021; Gedeon 2010). Additionally, it is the most natural solution to the problems of unemployment, poverty and inequality. According to Enaifoghe and Ramsuraj (2023, p. 4), the South African government actively promotes entrepreneurship to encourage economic development to increase job creation, competitiveness and income distribution. As a result, it has become easier for entrepreneurs to emerge and fulfil their essential role in South African economic development. Francke and Alexander (2029, p. 2) argue that entrepreneurship is supported by government policies that provide both financial and non-financial backing. Entrepreneurship is characterised as the ability of SMMEs to serve as the backbone of many successful economies worldwide. Research indicates that many established markets are built on small and medium-sized businesses, and developing countries are also encouraging entrepreneurial activities (Kaplan & Warren 2010). Enticed by the plethoric nature of entrepreneurship benefits including job creation, economic growth and social evils, regional, national and local government policies are focusing attention, resources and policymaking on entrepreneurial development (Bvuma & Marnewick 2020). Therefore, entrepreneurship is crucial in developing the economy through employment creation and business initiatives (ed. Venter 2022, p. 133). Toma et al. (2014, p. 438) suggest that certain conditions are conducive for entrepreneurship to thrive. These conditions include new products, new provision processes, new markets, new suppliers and new organisations.

## ■ Economic development

Economic development is a discipline within economics that specialises in the study of macroeconomic factors influencing long-term economic growth, as well as microeconomic issues affecting individuals and businesses, particularly in emerging nations (Kumari & Bhanoo, 2022, p. 76). Furthermore, some scholars argue that economic development is a concept primarily related to developing countries, while economic growth is associated with developed countries. Toma et al. (2014, p. 438) suggest that the goals of economic development can be summarised as follows: the creation of jobs, the enhancement of living standards and the process of influencing growth to improve the financial health of a community, society or economy.

Kumari and Bhanoo (2022, p. 76) suggest that there are four important ways to measure economic development:

- *Gross National Product (GNP)*: This is used to measure the increase in real national incomes over a long period of time.
- *GNP per Capita*: This measures the increase in per capita-related income over a long period.
- *Social Indicators*: This takes the basic needs of individuals into consideration.
- *Welfare*: This measures the inflow of goods and services to individuals.

## ■ South Africa's 21st-century entrepreneurial economic levels of sustainability

Enhancing the SMME sector and promoting its economic growth, development and sustainability is a challenge that South Africa faces, like many other nations. Small, medium and microenterprises in South Africa are often not viable or sustainable. The Sustainability Livelihood Approach (SLA) is used to formulate strategies aimed at alleviating poverty in the South African economy (Bvuma & Marnewick 2020).

Specifically, in terms of sustainability and innovation, South Africa's economic landscape has presented both opportunities and challenges for entrepreneurs, as observed and updated in 2021 (Argade, Salignac & Barkemeyer 2021). South Africa's significant economic challenges to the sustainability of entrepreneurship in the 21 century are well recognised. These challenges include a lack of access to resources combined with an unequal distribution of resources; a restrictive regulatory framework; high unemployment; poor infrastructure and connectivity; limited access to funding; and instability in politics and the economy (Kah et al. 2022). Since 2015, real gross domestic product (GDP) per capita has declined (SARB 2018), productivity growth has stagnated (Aterido et al. 2019; Kreuser & Newman 2018; Wittenberg 2017), unemployment has risen from

29.22% to 33.56% (Statistics South Africa 2017), and inequality remains high (Espoir & Ngepah 2021). Low economic development exacerbates poverty and inequality. High-income disparities aggravate social instability and jeopardise economic growth (Putnam 2007). Inequality generates divergent perspectives, making agreement difficult; the resulting stalemate and policy uncertainty can deepen weaknesses in the entrepreneurial economy. Small, medium and microenterprises are recognised as strategically important in advancing inclusive economic growth, job creation and transformation goals of South Africa (Visagie & Turok 2021).

Economic restructuring initiatives that support SMMEs must achieve both entrepreneurial sustainability and intergenerational livelihood equity objectives. In other words, economic change should be fostered by SMMEs in a manner that does not jeopardise the long-term ability of the South African economy to compete in global product and labour markets. In light of competition, SMMEs need to incorporate corporate governance into their practices to ensure that fairness thrives (Thesing & Velte 2021). This suggests that our economic strategy should simultaneously prioritise economic renovation, driven by effective corporate governance policies and practices (Kamal 2021).

Rungani (2022), in a contribution towards a comprehensive SMME support framework in South Africa, argued that one of the programmes focusing on economic change, inclusive growth and competitiveness in entrepreneurial encouragement should aim for the economic independence of the nation. The government of South Africa has identified SMMEs and cooperatives as potential catalysts for inclusive growth and local economic development (Rangwetsi & Van der Walldt 2021, p. 1). This clearly demonstrates that SMMEs drive economic transformation, which involves a rapid and significant shift in the ownership and control mechanisms governing SMMEs within the economy. The economic transformation of SMMEs is significantly proportional to their structural transformation. Structural transformation of SMMEs refers to the redistribution of entrepreneurial activities across various SMMEs. In other words, it entails the shift from low-producing, labour-intensive business activities to higher-producing, skill- and technology-intensive ones through the implementation of corporate governance strategies (Soogun & Mhlongo 2021).

While the primary purpose of this work is to describe measures that may aid in entrepreneurial change, the concept of structural change is occasionally discussed, particularly in the context of industrial strategy, as noted by the Centre for Competition, Regulation and Economic Development (CCRED 2016). Small businesses encompass a wide range of entrepreneurial activities, from self-employed individuals scraping by on the roadside to high-level professionals providing well-paid services to large corporations. This research on small, micro and medium enterprises

considers the significant differences between formal and informal enterprises. Formal small and microenterprises often have more financial resources, more advanced technology, more employees and higher revenues than their informal counterparts (Alvarez & Barney 2020).

Generally, SMMEs represent the majority of businesses in South Africa, as evidenced by their significant contribution to ensuring consistency and continuous economic development across the economy (Ogujiuba et al. 2020, p. 10). Consequently, active SMMEs in South Africa generate over 56% of the country's GDP, comprise over 91% of all formal organisations and account for almost 60% of all jobs (Ogujiuba et al. 2020, p. 13). The differences in financial and resource capacities among SMMEs need to be regulated to ensure competitiveness and fairness through good corporate governance. Otherwise, many of them may be barred from entering and participating in the market.

Hockett and Gunn-Wright (2019) argued that there is always a connection between effective governance and legal compliance. Good governance cannot exist apart from entrepreneurship legislation, and it is entirely wrong to separate governance from the law, or vice versa. The same scholars contended that good corporate governance in entrepreneurship comprehensively revitalises the nation's economy, supports the growth of the lower and middle classes and expedites the sustainability of enterprises. Small, medium and microenterprises can be governed by statute, by a code of principles, or by a combination of both through effective corporate governance practices. The World Trade Organization (WTO) supported good corporate governance by encouraging countries to lower trade barriers and modify trade rules that favoured industrialised economies over weaker ones, including many African economies. Additionally, the advocacy of the WTO at the national level aimed to protect SMMEs from being overshadowed by larger, established businesses.

Whatever the case, these least developed countries (LDCs) recognise the importance of global commerce and corporate governance in enhancing the contribution of SMMEs to economic development (Singh & Pillai 2022). This study reveals that when SMMEs are exposed to good corporate governance, they can achieve sustainability and growth, leading to increased participation in exporting their products and services. According to Davies (2021), Africa's exports to the United States of America account for just 1% of total US imports, with mineral products representing more than 60% of that share, primarily because of oil. This indicates that if SMMEs in South Africa synergistically collaborate with major corporations, there is a significant potential to increase production, with any surplus being exported, thereby boosting the economy's GDP. International commerce is evaluated based on product and service exports and imports, which account for over 50% of GDP in some regions of sub-Saharan Africa

(Fox & Gandhi 2021). This suggests that the heavy reliance on imports by SMMEs is not sufficiently balanced by their exports. Statistics indicate that the share of GDP attributed to SMMEs in international commerce is more than double that of exports, highlighting Southern Africa's dependence on imports. For instance, in Mozambique, trade constitutes 96% of GDP, while exports make up only 26% (Parkin, 2013).

According to stakeholder theory, organisations should implement corporate governance. Organisations should have panels of directors and managers who exceed the commitments mandated by law and consider stakeholder wealth and investment in their governance processes (Janang et al. 2020). The function of corporate governance is vital for maintaining an organisation's sustainability and adaptability in the current challenging environment. Currently, SMMEs are not mandated by law; however, it is the responsibility of their boards of directors and managers to fulfil commitments to stakeholders in the interest of business sustainability. According to the study, South Africa's economic progress is limited by a lack of commercial openness and corporate governance in SMMEs and innovation. In a few sub-Saharan African countries, non-parametric tests on businesses reveal that states with more open trade regimes have less diverse export structures.

This chapter takes a broad perspective on entrepreneurship, sustainability and economic growth by examining theories and literature pertinent to the inclusion of good corporate governance in SMMEs. It focuses on the incorporation of corporate governance in SMME operations as a means of renewing South Africa's SMMEs and enhancing their sustainability and contribution to economic growth.

## ■ The contributions of entrepreneurship to economic development in South Africa

Proper corporate governance of enterprises is essential for significant economic growth, job creation and poverty reduction in the South African economy (Enaifoghe & Ramsuraj 2023, p. 5). Since the establishment of a democratic South Africa, the fundamental objective has been to reinforce competitiveness by promoting job creation and national economic growth. In this context, it is evident that entrepreneurship contributes to sustainable development (job generation) for the growth of the South African economy. Ayankoya (2016, p. 10) postulates that entrepreneurial engagements by migrants in South Africa increase cross-country trade when foreigners sell South African-manufactured products to their home countries. This creates markets for South African products globally, increases the global competitiveness of South Africa, creates employment and provides much-needed entrepreneurial role models. Sudha (2015) notes that the contributions of entrepreneurship to economic development in South

Africa stimulate employment creation, increase economic growth and development, promote wealth creation and distribution, improve the standard of living and contribute to GNP. Furthermore, entrepreneurship introduces innovations, induces economic growth, increases competition and promotes balanced regional development, among other benefits.

### **❑ Creates employment opportunities**

Entrepreneurship reduces the unemployment situation in the South African economy. It creates employment opportunities for people of different ages, skills and expertise, both directly and indirectly (Halizah 2022; Padi & Musah 2022). The establishment of more enterprises, both small and large-scale, generates numerous opportunities in the South African economy.

### **❑ Increases economic growth and development**

Entrepreneurship promotes equity generation by mobilising idle savings from the public. Entrepreneurs utilise their own contributions, as well as funds from friends and family, along with borrowed resources, to set up their enterprises. Such entrepreneurial activities lead to value addition and wealth creation (Pulka & Gawuna 2022). Furthermore, entrepreneurship facilitates the utilisation of these savings, stimulating capital formation, which is essential for the capitalisation of enterprises and serves as the engine of economic growth and development in South Africa (Padi & Musah 2022).

### **❑ Promotes wealth creation and distribution**

In South Africa, entrepreneurship enables citizens to fully engage their potential and energies to create wealth through the provision of goods and services. Mabasa et al. (2023) advocate that entrepreneurship accelerates the equitable redistribution of resources throughout the country, benefiting diverse geographic areas and large sections of society (Halizah, 2022).

### **❑ Improves the standard of living**

Successful innovations in entrepreneurship improve the standard of living by creating jobs and fostering conditions conducive to a prosperous society (Seoe & Swart 2023). Entrepreneurship plays a pivotal role in enhancing the standard of living by adopting the latest innovations in the provision of goods and services in South Africa (Matima 2022).

### **❑ Contributes to gross national product**

Entrepreneurship encourages efficient and cost-effective resource mobilisation of capital, skills, products and services, which develops

markets for economic growth. This, in turn, helps increase the GNP and per capita income of the people in a country (Pulka & Gawuna 2022). Additionally, entrepreneurship contributes to the GNP and per capita income, serving as a signal of economic prosperity (Sudha 2015).

### ▣ **Increases competition**

Kritikos (2014) asserts that 'by starting new businesses, entrepreneurs [intensify] competition within the existing businesses'. As a result of these competing forces, 'consumers benefit from the resulting lower prices and greater product variety' (Kademeteme & Bvuma 2023).

### ▣ **Introduces innovations and induces economic growth**

Entrepreneurs often drive economic growth by creating new innovations through technologies or processes, developing new products and opening new markets (Kademeteme & Bvuma, 2023).

### ▣ **Promotes balanced regional development**

Selvan and Vivek (2020) state that entrepreneurs facilitate the reduction of regional disparities by setting up industries in less developed and backward areas. The increase in industries and businesses leads to public benefits such as improvements in health, education, road transport and entertainment, among others (Magocha 2014).

## ■ **Good corporate governance of entrepreneurship in South Africa**

Good corporate governance is essential for controlling internal operations and engaging stakeholders. The governance of an entity is shaped and often organised by crucial external interactions, which significantly impact the expanding role of firms in the public sector (Kuruppu & Lodhia 2019). The release of the King Report on Corporate Governance (King Report 1994) in November 1994 institutionalised corporate governance in South Africa. The King Report of 1994 was intended to promote the highest standards of good corporate governance in South Africa and beyond. The King IV Report (2016) emphasises that the beneficial effects of good corporate governance on organisations are imperative. Positive outcomes of good corporate governance include an ethical culture, high performance, effective control and legitimacy.

Corporate governance is pivotal in protecting minority shareholders and enhancing the effectiveness of corporate governance itself (Antwi-Adjei et al. 2020). According to Antwi-Adjei et al. (2020), a good



corporate governance structure encourages trust in the economic system, as it is an acceptable condition for the development of the entire society and the environment. Jaimes-Valdez and Jacobo-Hernandez (2016) argue that corporate governance attracts capital and supports capital retention, which, in turn, enhances market capitalisation for corporations. Furthermore, it encourages entrepreneurship to address issues of transparency, fairness, ethics, responsibility and honesty in all dealings between investors and other stakeholders. However, corporate governance in SMMEs is often negatively affected by financial mismanagement scandals and the abuse of company benefactors, which erode public confidence and harm enterprise legitimacy (Kuruppu & Lodhia 2019). In the non-profit organisation (NPO) sector, accountability is viewed as a stakeholder requirement for gaining access to and securing resources, demonstrated through appropriate governance processes and effective resource usage. This is frequently regarded as a measure of control and justification, but it may also provide an opportunity for organisations to proactively demonstrate their legitimacy, survive allegations and obtain further legitimacy (Egholm, Heyse & Mourey 2020).

The inclusive method requires clearly stating the business's goal as determining and communicating the values by which the enterprise will conduct its daily operations to all stakeholders. It is also essential to identify the stakeholders who are critical to the enterprise's operations. These three factors – stating the business goal, determining the goal and communicating the goal – must be addressed while developing approaches to achieve the company's vision, mission and goals. The relationship between the firm and its stakeholders is expected to be mutually beneficial. Numerous studies have demonstrated that this comprehensive strategy is key to long-term firm performance and sustained growth in shareholder value for South African small, micro and medium enterprises (Gupta 2022; Kuruppu & Lodhia 2019). However, it is important to remember that entrepreneurship and innovative ideas are crucial attributes that drive a business. Emerging economies are powered by entrepreneurs who take business risks and initiatives. Successful enterprises contribute to thriving economies and have the potential to reduce economic inequalities. Without adequate levels of profitability, not only will investors seek alternative investments because of insufficient returns, but other stakeholders are also unlikely to maintain a long-term interest in the company (King IV 2016).

## ■ Characteristics of good corporate governance required by South African entrepreneurs

Good corporate governance and entrepreneurial orientations consist of seven traits: discipline, transparency, independence, accountability, responsibility, fairness, and social responsibility.



Entrepreneurial discipline is the most important trait, as it obliges a company's top management to adhere to internationally recognised and authorised standards of proper behaviour. Discipline encompasses the awareness and commitment of a company's top management to the essential principles of good corporate governance, particularly at the highest levels. Many businesses find it challenging to succeed because of the difficulties of life. Frustration often leads some companies to give up too readily. However, every challenge that entrepreneurs face presents an opportunity for growth, expansion of skill sets, pushing boundaries and discovering innovative solutions to problems. As their skill sets develop, disciplined entrepreneurs make their lives easier. The discipline of today's entrepreneurs is influenced by implicit and explicit assumptions regarding various uncertain variables, including technology, consumer demand, competitor reactions and resource availability. Predicting potential combinations of these elements is further complicated by factors that the entrepreneur may have overlooked. According to Magocha (2022), autonomy is the self-reliant and independent achievement of an entrepreneur or a team in developing a strategic plan, vision and mission, and following it through to completion without being hindered by excessively rigid organisational constraints. Autonomy as an entrepreneurial mindset affects the entrepreneur's discipline in various ways.

Several businesses struggle with sustainability because certain owners lack the discipline to address maladministration, greed, inappropriate withdrawals, misuse of authority, mismanagement of loans, uncompetitive behaviour and other cultural inconsistencies that hinder gender equity. Discipline is the linchpin of all strong corporate governance traits; it underpins transparency, independence, accountability, responsibility, fairness and social responsibility. All the factors listed are dependent on discipline.

Gupta (2022), Salehi, Ajel and Zimon (2022) concur that transparency is defined as the ease with which an outsider can examine a company's behaviour, economic essentials and nonfinancial attributes relevant to that company. This type of transparency, according to this book chapter, is what SMMEs should adopt and adapt to achieve good corporate governance and economic sustainability. This metric assesses the effectiveness of management's communication of critical information in a truthful, accurate and timely manner, encompassing not just audit data but also general reports and press releases. It reflects whether investors get a comprehensive picture of what is happening within the company. Gupta (2022) noted that administrative opacity can hinder economic growth by creating barriers to entry for enterprises. Through a phased reform that promotes transparency in administration and governance, Gupta's research evaluated whether increasing openness reduces the bureaucratic cost of entry and fosters entrepreneurship.

In South Africa, the government is encouraging enterprises to embrace the ideals of transparency as part of good corporate governance in a democratic society. The United Nations General Assembly stated, 'Freedom of information is a fundamental right and an essential component of the freedoms to which the United Nations is committed,' in its first resolution 59 (1) in 1946 (Gupta 2022). According to Colonnelli and Prem (2017), access to official information held by public bodies is vital for successful governance and can benefit economic growth. As a fundamental human right, the right to information is a powerful tool for promoting openness and accountability in the governing process by reinforcing the concept of checks and balances.

## ■ **Corporate governance, national governance and the future of entrepreneurship in South Africa**

Corporate governance and national governance are twin giants of the South African economy, impacting all business entities within that economy, including SMMEs. Within these two giants, scenarios reflect the tension between the representation of South 'Afri-can' and South 'Afri-can't' entrepreneurs (Subran 2016). King IV highlights that ubiquitous social media platforms are fostering a world of extreme transparency, where organisations can no longer keep their actions or secrets hidden. Technological advancements, such as the emergence of the Internet of Things (IoT), are generating massive amounts of data; sophisticated analytics are transforming that data into deep insights into human and organisational behaviour. These anecdotes illustrate the potential of African entrepreneurs to surpass the aspirations outlined in Agenda 2063.

However, various challenges and traps await the continent, which may stymie future attempts to achieve democracy, good governance, peace and prosperity. Subran (2016) proposed ten myths that Euler Hermes identifies as reasons why Africa is a unique continent with numerous resources that will help it rise and become a significant actor in the global economy. The following myths were proposed: all African countries are the same; Africa only relies on raw materials; African infrastructure is non-existent; Africa is isolated from the rest of the world; African institutions are non-existent; no one will finance African growth; African consumers are not bankable; working with African companies is difficult; and Africa has no talent. These myths have the potential to be demystified if proper corporate governance structures are established (Knight 1989). In this context, South African SMMEs would gain the lifeblood of sustainability and prosperity, allowing them to address social injustices and foster social cohesion (Walton 1956).

The coronavirus disease 2019 (COVID-19) and the poverty epidemic have also prompted regional governments to change their investment facilitation and promotion policies, which may assist in boosting foreign direct investment in the coming years. Although the emphasis remains on increasing the number of new projects, diversification issues have received more attention (Colonnelli & Prem 2017; Gupta 2022). Simultaneously, there is increased emphasis on intraregional connectivity, environmental challenges and the green economy. Government measures in South Africa have included cash transfers to entrepreneurs, credit guarantees for SMMEs, improved liquidity conditions, repayment grace periods for most of the private sector, and accounting and regulatory forbearance for many financial institutions. According to Kuruppu and Lodhia (2019), while these measures have helped to mitigate the economic and social effects of the pandemic, they have also worsened risks such as public over-indebtedness, increased financial instability and a general lack of transparency. Small, medium and microenterprises have been left with little fiscal headroom, a situation that is expected to worsen. The anticipated normalisation of monetary policy in advanced countries puts them at further risk.

While there are prospects for significant advancements in sociopolitical and economic progress, there is also a risk of a clear decline in issues such as insecurity, the rule of law, democratic participation and inclusion, and the protection and promotion of human rights for entrepreneurs (Fisman & Golden 2017). Ongoing and uncontrollable natural disasters, pressure from global business and financial institutions, as well as widespread social unrest, bloodshed and war, presents significant challenges to entrepreneurship that must be addressed. To achieve the best-case scenarios for African corporate governance futures:

[citizens'] needs, participation, and universal rights must be [prioritized] and [cantered], as well as the rule of law [being] enforced and underpinned by [good corporate governance] principles such as transparency, accountability, and ethical, responsible leadership. Committed actions are required if [African entrepreneurs] are to [realise the governance] futures that we want, defined by peace and security, prosperity, and sustainability. (Mwagira 2022)

## ■ Regulatory policies and strategies of South African economic development of small, medium and microenterprises

To address South Africa's socioeconomic challenges, economic policymakers must prioritise measures that enhance the country's potential growth. The World Bank (2018) defines potential growth as the level of output a country can sustain when operating at full capacity and full employment. Current estimates indicate that South Africa's potential

growth has been declining. According to Fedderke and Mengisteab (2017), Botha et al. (2018) and Steenkamp (2018), potential growth forecasts vary significantly based on the methodology used, with current estimates ranging from 0.8% to 2.6% (2018). As a result, a sustainable economic trajectory for South Africa should focus on implementing improvements to raise the potential growth rate.

## ■ Regulatory policies in South Africa

In South Africa, there are many strategic planning documents, including the Department of Small Business Development (DSBD), the National Strategic Planning Green Paper, the National Development Plan and the Medium-Term Strategic Framework, among others. This reflects good policy formulation; however, implementation remains a challenge. There is a need to address issues such as corruption, bureaucratic red tape and redundant policies like Black Economic Empowerment, which carry connotations of racial favouritism. Democracy can be sustainable in every respect if implemented thoroughly, motivating citizens to work for the country wholeheartedly.

Following the political upheaval of 1994, the nation issued the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa. Based on a 2004 review, the Cabinet approved the Integrated Strategy for the Promotion of Entrepreneurship and Small Businesses, which aims to improve access to financial support, including debt, equity, venture capital, credit indemnity, incentives and grants, as well as non-financial support such as incubation and technology transfer, mentorship and capacity building, technology stations and advisory services (Parliamentary Monitoring Group 2017). The plan includes creating demand for SMME products and services, facilitating government and private sector procurement, expediting payments to SMMEs and enhancing export marketing (Ncube & Zondo, 2022). The regulatory impact of the policy and strategy on SMMEs is informed by both current and new government activities.

According to King (2016), good corporate governance necessitates addressing general policy and programme implementation issues in South African economic development policy and strategy for small business support. These issues include poor strategy, a lack of support systems, insufficient monitoring and evaluation, inadequate labour resources, operational bureaucracy and a scarcity of small business media. The main recommendation of the policies and strategy is to strengthen small business leadership by training the National Small Business Advisory Council to oversee the work of key departments and agencies responsible for SMME development.

There are four key responsibilities: (1) ensure long-term planning, (2) ensure coordination, (3) ensure integration, monitoring and evaluation of support and (4) ensure quality SMME research (NISED, 2022).

They also intend to revise the *NSBAA of 2004* to achieve two main goals: firstly, to clearly define the roles of provincial and municipal governments in supporting SMMEs; and secondly, to examine the institutional missions, particularly those of the SEDA, in terms of organisation, research, regulatory environment and sector focus or alignment with industrial policy (Department of Trade and Industry [DTI] 2018). South Africa and Zimbabwe have decided to proceed with the SMME cooperation agreement they signed in late 2012. This relationship includes, among other things, facilitating incoming and outgoing trips, promoting trade between both countries, training newly qualified graduates at Zimbabwean technical institutes, and investigating commodities exchange regions (Medupe 2013). This is part of South Africa's commitment to working as development partners with the Zimbabwean diaspora.

Several experts have recognised excessive regulatory burdens as a major impediment to the growth and expansion of SMMEs (OECD 2015). Small firms spend an average of 4% of their income on red tape. According to Obadic, Ravšelj and Aristovnik (2020), red tape refers to the excessive, unnecessary, or perplexing regulatory burden imposed on organisations and individuals. The smallest enterprises (those employing fewer than 21 people) bear the brunt of this load and are affected by red tape protocols more than medium enterprises (Small Business Project 2013a). For organisations with more than 40 employees, red tape consumes 3% of earnings. For enterprises with fewer than 21 employees, R1 of every R20 is spent on red tape, while the comparable figure for those employing more than 40 is R1 in every R33 (Small Business Project 2013b). The government may assist SMMEs by committing to reduce red tape at various levels of government. The Red Tape Impact Assessment Bill, which was defeated in parliament because of procedural issues, should be reviewed (Parliamentary Monitoring Group 2017). According to the Bill, a new Red Tape Effect Assessment Unit would study any new legislation to determine if a full 'red tape effect assessment' is necessary. In addition to investigating the implications of new laws, an assessment of current policy and regulatory barriers to investment, along with a timeframe for their removal, is needed to eliminate unnecessary regulatory hurdles. To reduce SMME start-up expenses while simultaneously decreasing substantial regulatory duties, whole or partial exemptions from various types of regulations, particularly labour legislation, should be considered.

Individuals without finances, collateral or access to angel investors have been significantly harmed by the failure to support early-stage firms.

This policy failure inhibits the government's ability to foster economic development and creates an opportunity for public funds to be spent more efficiently. Consolidating existing SMME support funds into a single fund with a well-defined aim and performance targets could have a substantial impact on SMME assistance without requiring additional funding (National Planning Commission 2012). The National Treasury is partnering with the Departments of Small Company Development and Science and Technology to create and implement a small business ideation and early start-up fund to address some of the shortcomings of the current funding environment.

## ■ **Enabling cross-border trade by small, micro and medium enterprises in South Africa in anchoring economic growth**

Small companies were explicitly targeted as a means to anchor domestic private sector growth and, more crucially, as a source of new job creation because of the growth and expansion of micro and small firms. As a result, the core policy premises of the White Paper remain aligned with South Africa's National Development Plan Vision 2030. However, cross-continental cooperation is also essential; the African Union supports the need for cross-border commerce to uplift communities and significantly reduce poverty, which affects 37m people in sub-Saharan Africa alone. The African Continental Free Trade Area (AFCFTA) aims to unite Africa's 1.2 bn people across 54 states into a single market where they can buy and sell commodities, thereby increasing the continent's economic potential. While regulatory changes and trade facilitation measures are needed, trading began on 01 January 2021, with the World Bank forecasting \$450bn in actual economic gains by 2035. Collaboration is evident across the continent, not just in business but also in facilitating involvement across all stakeholder groups to address the myriad challenges that afflict our cities cooperatively. Consider the opportunities available in our cities for all inhabitants, with the purpose of working together to build secure, resilient and inclusive communities today and in the future.

## ■ **Strategic drivers of sustainable economic development in the South African economy**

South Africa's economic path is unsustainable because of poor growth and increasing joblessness among the youth. The government is enacting a series of growth reforms to encourage economic transformation, labour-intensive growth and the development of a globally competitive economy (Parliamentary Monitoring Group 2017). It emphasises key strategies for sustainable growth before identifying a series of specific and comprehensive

adjustments to boost potential growth. Under these circumstances, SMMEs are critical for any country's economic growth and development; however, maintaining their performance over time remains a significant challenge (Bhorat et al., 2018). The ever-changing nature of the international economy has grown increasingly complex, making it essential to create knowledge-based firms that can support continued growth and development while also achieving socioeconomic goals. Innovation in the commercial or industrial use of new products, techniques, or methods of production should be encouraged (Saunila, 2016). Despite its importance, the innovation of SMMEs remains a challenge globally, including in South Africa.

The Fourth Industrial Revolution (4IR) and the COVID-19 pandemic have accelerated the need for small, micro and medium enterprises to innovate and digitise. As a result, performance management models are expanding their focus beyond traditional activities, such as finance and manufacturing, to include intangibles like information and expertise in areas such as innovation, digitisation, and research and development (R&D) (Davila, Epstein & Shelton 2012). It is therefore critical to better understand the performance of SMMEs and how it relates to innovation and digitalisation within these enterprises (Curraj 2018). As the most promising sector of South Africa's economy, SMMEs emerge not just from a production standpoint but also from an interest in income distribution, where money and other cash equivalents are exchanged among a broad spectrum of people. South Africa has improved its average labour productivity by allocating a significant proportion of capital to large enterprises that achieve economies of scale and/or firms that utilise current technology. In this context, only a few highly experienced and well-paid individuals are needed to manage this capital. However, the larger labour force generates little capital because of low productivity and pay. This situation arises when labour, as the abundant factor of production, is working inefficiently, leading to a deterioration in the distribution of proceeds, particularly for unskilled workers and new labour entrants.

Small, micro and medium enterprises should be supported through public procurement. The government's overdue payments to small firms should be rectified, possibly by allowing automatic interest accumulation on unpaid amounts after an agreed-upon period. Governments and state-owned enterprises must develop bids whenever feasible to expand opportunities for small businesses. Additionally, a dispute resolution process within the Chief Procurement Office or a separate ombudsman is needed to enhance oversight and monitoring of subcontracting relationships (Garcia et al. 2022). Small businesses need to serve as subcontractors for larger firms to enter global value chains and establish longer-term, sustainable contractual relationships that improve their creditworthiness (Akenroye et al. 2022).



A dedication to reducing red tape can open doors for small enterprises. The Red Tape Impact Assessment Bill, which Parliament excluded on bureaucratic grounds, should be reconsidered (Kruger 2017). This proposed measure compels all departments and self-regulatory organisations to cut bureaucratic red tape by 25% over a 5-year period. Small enterprises (and other new market entrants) could benefit from whole or partial exemptions from certain types of regulation (e.g., the expansion of negotiating council agreements). Special economic zones in various provinces of South Africa can be utilised as prospective sites where economic interventions can be implemented (Sever et al. 2020). Red tape is described as laws and regulations, as well as administrative and management processes, that are ineffective in attaining their intended goals, thus causing suboptimal and undesirable social effects (Wegmann & Cunningham 2010). An examination of the literature reveals that red tape does not have a straightforward definition (Pandey & Scott 2002) and must be analysed in a broader context that includes concepts such as improved regulation, good governance and e-government. The DSBd asserts that there is potential for long-term improvement for SMMEs in South Africa. The Department's 5-year strategic plan for 2020–2025 includes the following performance outcomes:

- Enhanced participation of SMMEs and cooperatives in domestic and international markets
- Intensified contribution of SMMEs and cooperatives in priority sectors
- Scaled up and coordinated support for SMMEs, cooperatives, village and township economies
- Increased access to financial and non-financial support and implemented responsive programmes for new and existing SMMEs and cooperatives
- Diminished regulatory burdens for small enterprises
- Advanced governance and compliance
- Improved, integrated and streamlined business processes and systems (DSBD 2020–2025).

The need to introduce good governance to improve the sustainability of SMMEs in South Africa is imperative, and reducing red tape is essential (Kovač & Jukic 2017). Using a normative-analytical approach, this study identifies seven strategic organisational governance areas relevant to SMMEs when engaging with the state (i.e., public administration) and where they may encounter managerial barriers related to regulation. These key areas include (1) sectoral regulation, (2) employment market functioning, (3) ease of fulfilling public responsibilities, (4) reporting to the state, (5) inspection efficiency, (6) obtaining building licences and (7) (re) establishing an enterprise. These findings align with those of the study by Obadic et al. (2020), which identified administrative barriers in the area of employment within businesses.



## ■ Corporate governance and sustainability

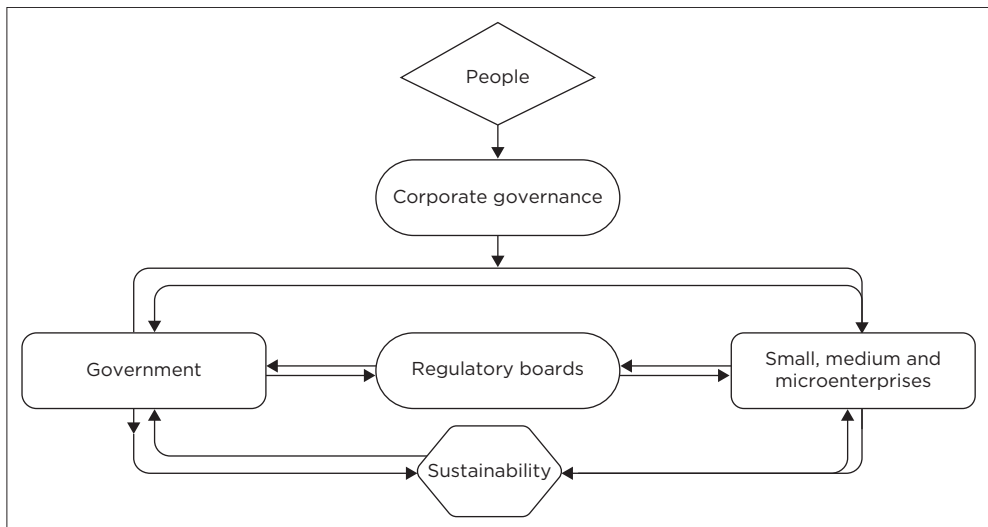
According to Jamies-Valdez and Jacobo-Hernandez (2016), sustainability is ‘the ability to meet present demands without compromising the ability of future generations to meet their own requirements’. Antwi-Adjei et al. (2020, p. 80) explain that corporate sustainability means that firms consider the future, as well as the present, in their management and planning, using available resources to create long-term value. Furthermore, the increasing emphasis on sustainability has prompted the adoption of novel tactics for engaging relevant stakeholders, highlighting stakeholder relationship management as a source of competitive advantage. Sustainable corporate governance strategies originate from the board of directors and are informed by the organisation’s mission and objectives. Corporate sustainability is essential for today’s businesses, critical to a prolonged corporate success story and vital for ensuring that markets provide value across society (Antwi-Adjei et al. 2020). Entrepreneurial firms and corporate governance must be recognised as key drivers of economic development in South Africa under the new global order. According to reports, the emergence of SMMEs could position the country to fulfil both the 2030 National Development Goals and the United Nations (UN) Sustainable Development Goals (SDGs).

The high failure rate of small and micro firms may be attributed to inadequate corporate governance. The publication of the King Report (1994) established corporate governance principles in South Africa. King (2000) posits that corporate governance is primarily concerned with leadership. It is a guiding framework that frames the operation and control of a firm to achieve effective business management, concern for employees and good relationships with trading partners (Smit 2011). The fundamental principles of good corporate governance uphold values such as honesty, fairness, responsibility, social responsibility, accountability and discipline within the business. Small and micro firms in South Africa, especially in rural municipalities, currently face several sustainability challenges. According to Bruwer and Watkins (2010), the primary elements influencing sustainability are classified as macroeconomic issues, microeconomic factors and psychological aspects.

However, SMME owners and managers are often unfamiliar with corporate governance. As a result, many small and micro companies do not adhere to corporate governance philosophies, which are considered ‘good business practices’ (Flowers et al. 2013). As identified in this chapter, owners and managers employ a limited degree of intuitive governance, recognising the importance of certain aspects of good governance, namely rules and processes. The framework was developed from critical discourse analysis of information from various sources.

Figure 2.1 demonstrates that the individuals who own SMMEs, those who intend to be entrepreneurial, and customers should be guided by corporate governance that oversees government apparatus and SMME operations in a fair and comprehensive manner. Government and SMMEs are interdependent concerning governance issues, and regulatory boards refer to the rules and regulations that govern the industry. Strict adherence to these rules is essential for the sustainability and future existence of SMMEs and humanity. The people of South Africa need to address gender disparities in entrepreneurship.

Small, micro and medium enterprises are not gender-sensitive, particularly in agripreneurship. According to Du Toit et al. (2011), agriculture can help alleviate poverty by lowering food prices, creating jobs and increasing farm incomes. Women entrepreneurs are female entrepreneurs who create something from nothing; in developing countries, women often serve as initiators, owners and business managers (World Bank 2019). The primary reason women are interested in pursuing careers in agriculture, especially during the COVID-19 pandemic, is that the sector maintained vital services during the shutdown, highlighting the importance of farming in supplying nutritious food (Alliance for a Green Revolution in Africa [AGRA] 2021). This sector has some of the best prospects for job creation, and female entrepreneurial participation in agriculture is believed to have a positive impact. The significance and relevance of women's empowerment have been widely debated, aiming to improve rural women's living conditions and increase household income. The primary focus for female



Source: Author's own work.

**FIGURE 2.1:** Corporate governance – sustainability framework.

farming businesses will be on sustainable farming, decision-making and household farming labour, with land ownership being a secondary concern (Zaridis et al. 2015). The authors assert that agriculture is a crucial sector for female entrepreneurship and is one of the world's largest employers of women (Kloppers & Kloppers 2006). Women play numerous roles in modern rural culture, contributing to families, communities and economic growth. Women entrepreneurs make significant contributions, and their diverse productive tasks, such as farming and managing a home and family, can benefit society (Zaridis et al. 2015).

Hardik, Political & Administrative Transparency and Entrepreneurship (2022) posit that the government should enhance its instruments and machinery in collaboration with regulatory boards and SMMEs to maintain the sustainable livelihoods of the South African people. The government operates in tandem with several strategies and units, including the National Development of Agriculture, Land Redistribution for Agricultural Development, Comprehensive Agricultural Support Programme, National Skills Development Strategy, National Skills Development Plan, National Development Plan, National Planning Commission, Department of Economic Development, DTI, Sector Education and Training Authority, DSBD, South African Women Entrepreneurs' Network, National Youth Development Agency, Global Entrepreneurship Monitor and many others. The government monitors internal controls related to access to finance, employee satisfaction, employee education, training provisions for employees, organisational policies and procedures, sound information technology systems and competitor regulation as part of good corporate governance. On the other hand, SMMEs remain vulnerable to labour laws, tax laws and compliance-related bureaucracy, with the expectation that the government will restore confidence through the initiation of new incentives. This includes the DTI initiating various funding schemes ranging from grants to business incentives (Couch 2023; Lim 2022).

Sustainability is critical for the development of SMMEs in terms of efficiency and the foundation of sound business principles, which are embedded in corporate governance principles (Fernandez-Armesto 2006). The weakening of the South African Rand, market volatility and the global recession negatively impact the sustainability of small and micro businesses. According to Muller (2009), good corporate governance is essential for the development of a healthy and modest business sector. One of the key values of corporate governance for small businesses is the establishment of a better and more robust system of internal controls, accountability, transparency and an improved strategic vision. By involving outside business experts, entrepreneurs can focus more on strategic direction and business expansion rather than daily operations, thereby creating the ability to attract better managers and investors.

## ■ The benefits of corporate sustainability on entrepreneurship in South Africa

The benefits of sustainability on entrepreneurship include:

- Assessment and partnerships with suppliers have a positive effect on environmental performance.
- There is a significant correlation linking corporate governance and sustainability.
- There is a significant positive relationship amid governance and sustainability disclosure.
- Sustainability offers greater value to the SMMEs.
- Alliance between internal governance and stakeholders constitutes sustainable governance (Jaimes-Valdez & Jacobo-Hernandez 2016, p. 49).

## ■ The challenges of entrepreneurship to economic development in South Africa

The challenges facing entrepreneurship and economic development in South Africa include, but are not limited to, a lack of access to funding and credit, unfavourable legislative environments, a shortage of skills, information deficiencies and inaccessibility to markets and procurement (Enaifoghe & Vezi-Magigaba 2023, p. 100). Inefficient and ineffective support for current and potential entrepreneurs is another serious challenge in South Africa, making planning critically essential. According to Ayandibu and Houghton (2017, p. 136), external and internal factors affect SMMEs. External factors include financial constraints, while internal management factors encompass market conditions, economic factors and infrastructure. Additionally, Ayandibu and Houghton (2017, p. 136) identify major challenges faced by SMEs in both the internal and external environments, which may include high interest rates, insufficient owner equity contributions, business location, absence of information technology, high transportation costs, excessive taxes and tariffs, a lack of internet access, high production costs, business skills shortages, skilled labour deficiencies, registration and licensing costs, a lack of training and high foreign competition, among others.

## ■ Conclusion

As the economy is regrettably showing signs of decline, manifested in various deficiencies such as power shortages, unemployment, gender-based violence, rising crime rates, mass protests and price hikes of basic commodities, people are increasingly threatened by higher levels of poverty and social injustices. The sustainability of life is becoming increasingly unattainable. This situation

serves as a wake-up call to the nation that action is needed. According to this study, entrepreneurial innovations are a promising solution. Furthermore, the South African government and business community are working to reduce red tape. The Director-General of the National Treasury, along with a private sector representative, co-chairs a process that has already produced results in addressing bottlenecks in the issuance of water licences and environmental regulations related to mining, as well as in business registrations. Additionally, e-solutions should be introduced and supported with a 'knowledge backup' for public officials and stakeholders, including appropriate updates and improvements, to provide structural support for sanctioned and contributory problems. The government should invest in modern technologies to enable effective essential services and keep pace with the private sector. Like other countries such as Slovenia, which has successfully completed several e-government projects (such as one-stop shops, the tax bot 'Vida,' and e-land registration), there is still much room for improvement in South Africa.

In exercising good corporate governance to ensure the sustainability of enterprises, the principle of proportionality should guide establishments when regulating and enforcing business statutes. Furthermore, broadening the scope of discretionary controls can be a beneficial tool for increasing flexibility. However, such changes carry risks and require qualified public entrepreneurs who adhere to the highest standards of honour and ethics. Otherwise, the 'neoliberal shift' from supervision to management may lead to chaos, bribery, arbitrariness and illegality.

## ■ Recommendations

The following recommendations arise from a critical discourse analysis of the existing politics and philosophies of the economy. Lowering entry barriers can be facilitated by evaluating bureaucratic red tape surrounding licensing and municipal regulations as part of good corporate governance. Additionally, introducing a 'silence is consent' rule for licensing procedures with low associated risks would promote the sustainability of SMMEs. Small businesses should be supported through public procurement, potentially by accepting the automated addition of interest on remaining balances owed by the government after a certain period. Small, medium and microenterprises should serve as subcontractors to large firms. Working as a subcontractor for a large corporation can help small businesses enter international value chains and establish longer-term contractual relationships, which can enhance their creditworthiness. The people of South Africa should implement youth employment initiatives, such as sustained government support for business creation programmes.

# Towards an *Utu, Unhu-Ubuntu* entrepreneurship framework

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Whose fault is it if no one knows about the philosophy of your grandfather and mine? Is it not your fault and mine? We are the intellectuals of (Africa). It is our business to distil this philosophy and set it out for the world to see. (Samkange & Samunge 1980)

## ■ Abstract

This chapter explores the possibilities of developing entrepreneurship governance based on Ubuntu philosophy. For some, the idealistic and moralistic undertones inherent in the term '*Utu, Unhu-Ubuntu*' may be controversial. The researchers believe that integrating Ubuntu into entrepreneurial governance can enhance the entrepreneurial culture

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and mindset of countries. While Ubuntu is an African ideology centred on collaboration and mutual support through sharing and reciprocity, it can also be described as a philosophy emphasising 'being self through others.' It embodies a form of humanism expressed in the phrase 'I am because of who we all are,' derived from a Nguni language (isiZulu) aphorism: *umuntu ngumuntu ngabantu*. *Utu, Unhu-Ubuntu* is grounded in morality and dignified human values intended to maintain social cohesion and promote social justice. This chapter aims to develop a user-friendly framework for entrepreneurship based on *Utu, Unhu-Ubuntu* and corporate governance. Where these two fundamental ideologies integrate, the researchers believe there is potential for creating enterprises that rationally serve fundamental human dignity, thereby promoting sustainability. The researchers assert that ubuntu-embedded corporate governance will be inclusive and encourage all individuals to participate in development. This approach can promote an indigenous method of utilising the country's resources, which may have previously remained untapped.

## ■ Introduction

It appears that small and medium enterprises (SMEs) are conceptualised based on historical ideologies that promote the hegemony of capitalism and the neoliberal economics of wealth accumulation by individuals. Akyol (2022) describes SMEs as being founded on capitalism models that justify the principal owner's contributed capital, self-management and flexible production systems, in contrast to large enterprises. This suggests that SMEs serve as institutional agents for transplanting the hegemony of capitalism. Bateman (2000) has long argued that SME development policies and intervention measures are driven by neoliberal ideologies. Von Feigenblatt, Pardo and Cooper (2021) argued that neoliberal systems often reintroduce themselves through SMEs as alternative enterprise structures for creating economic growth and development after the same ideology has created an economic crisis at the macro level. Von Feigenblatt (2021) argues for the need to find an alternative philosophical ideology to the dominant neoliberal ideology, describing its weakness as being incompatible with local communities and ways of life. Bateman (2013) views the development of SMEs as an extension of the neoliberal approach, which dismantles large enterprises through policies aimed at developing and sustaining these small enterprises. It can be inferred that existing institutional efforts to support SMEs could further entrench capitalism if the Ubuntu entrepreneurship framework is not developed as an alternative philosophical grounding.

Research on the Ubuntu philosophical approach, which is based on communalism rather than capitalism, is still underdeveloped and should be considered as an alternative philosophical framework to inform SME models in the South African context.

Consideration of ubuntu as an alternative entrepreneurship model has major implications for SME creation, capital, ownership, profitability and sustainability. The concept of Ubuntu is deeply rooted in African societies, yet it is often absent from the corporate governance practices of SMEs. Ubuntu is a lived philosophy that embraces communitarianism, where an individual's identity is defined in the context of society rather than from an individualistic standpoint (Bohwasi 2020; Mabovula 2011; Ramose 2000; Welter et al., 2018,). This philosophy epitomises humanity, asserting that individuals exist not solely for their own sake but for the common good of society. Mabovula (2011) describes Ubuntu as centred on human beings as a collective, where the social contract of individual choices is defined and constrained by societal norms. In contrast, the principles underlying the governance of SMEs are not based on Ubuntu, which undergirds the African societies in which these entrepreneurial entities operate. Because Ubuntu is the fabric of society, it is unclear how SMEs founded on neoliberal principles of self-interest can coexist with communities whose way of life is based on communalism. Given that Ubuntu shapes the way of life in African society, this study grapples with the question of how Ubuntu can be introduced as an alternative framework for SMEs.

Suffice it to say that South Africa has experienced its fair share of significant failures among SMEs, despite many years of available policy and institutional support (see National Integrated Small Enterprise Development Masterplan [NISED], 2022). Various scholars have explored the factors impeding the survival of SMEs. Changweshwa and Mutezo (2023) identified a lack of financial literacy and limited access to finance. Ogujiuba et al. (2023) attribute the lack of access to startup capital as a subsequent cause of SME failure. Flepis et al. (2023) proposed a model that identifies several factors determining the success or failure of SMEs, namely: capital; financial and record-keeping skills; control; management and industry expertise; planning; professional advisers; education; personnel; product; timeliness of services; economic conditions; age of the owner; partners; parents who operated a firm; marketing abilities; and minority status. While numerous studies have broadened the understanding of and proposed different approaches to addressing the rampant failure of small businesses, there is still a scarcity of studies that contextualise ubuntu as a potential model for building sustainable SMEs.



## ■ Reevaluating small and medium enterprises model in the context of Ubuntu philosophy

South Africa, like any other African country, must understand entrepreneurial activity in the context of its colonial past, which dispossessed indigenous people of their land and further exacerbated the loss of their epistemologies and self-identity. Ramose (2000) and Ngcukaitobi (2021) describe the struggles stemming from ideologies that viewed humans as rational beings, justifying colonisation that led to the conquering and proselytisation of the subjugated. This unjust process resulted in the wrongful dispossession of their territory (disseise), the assumption of sovereignty and the unilateral imposition of foreign meanings, experiences, knowledge and truths (epistemicide). Consequently, a Western knowledge system was imposed on African societies, leading to the involuntary replacement of indigenous knowledge systems in entrepreneurship, business, medicine and other areas. Ramose (2000) cautions against the mere consumption of information without the reconstruction of knowledge to create a new worldview that aligns with the way of life of society.

In this study, two questions emerge: firstly, how do we locate ubuntu in the corporate governance of SMEs to advance sustainable entrepreneurship activities? Secondly, what Ubuntu entrepreneurship governance model can be developed to promote the sustainability of SMEs? This study proposes that positioning ubuntu in entrepreneurship requires extending its principles beyond the integration, accommodation and assimilation of ubuntu values, moving towards the transformation of ownership forms of entrepreneurial enterprises and their governance structures. Arguably, the disruption and deconstruction of the construct of entrepreneurship allow for a reconstruction of Ubuntu and entrepreneurship knowledge to embed existing African philosophy. The emerging model of entrepreneurship governance will be presented and discussed.

## ■ Ubuntu philosophy

Bohwasi (2020, p. 109) elucidates that the term:

*ubuntu* is expressed differently in several African communities and languages but all referring to the same thing. In Angola, it is known as *gimuntu*, Botswana (*muthu*), Burkina Faso (*maaya*), Burundi (*ubuntu*), Cameroon (*bato*), Congo (*bantu*), Congo Democratic Republic (*bomoto/bantu*), Cote d'Ivoire (*maaya*), Equatorial Guinea (*maaya*), Guinea (*maaya*), Gambia (*maaya*), Ghana (*biako ye*), Kenya (*utu/munto/mondo*), Liberia (*maaya*), Malawi (*umunthu*), Mali (*maaya/hadama de ya*), Mozambique (*vumuntu*), Namibia (*omundu*), Nigeria (*mutunchi/iwa/agwa*), Rwanda (*bantu*), Sierra Leone (*maaya*), South Africa (*ubuntu/botho*), Tanzania (*utu/obuntu/bumuntu*), Uganda (*obuntu*), Zambia (*umunthu/ubuntu*) and Zimbabwe (*hunhu/unhu/botho/ubuntu*).

Equally important, these facts provide evidence of the extent to which Ubuntu is the underlying philosophy in Bantu-speaking societies. It is evident beyond doubt that there is a widespread existence of invaluable social experiences, values, principles and knowledge systems of the African people that must be examined through research and harnessed into existing entrepreneurial governance practices to promote the sustainability of SMMEs in South Africa.

It follows, therefore, that the extent to which Ubuntu permeates the way of life in African societies justifies the need to reconstruct existing epistemologies of entrepreneurial governance to integrate the Ubuntu perspective. In Ubuntu, views of human interdependence and reciprocity are emphasised, putting less focus on individualism or self-interest and more on 'being human together with others' (Mirvis & Googins, 2018, p. 3; Rivera-Santos et al., 2015, Malefakis, Farrell & Monteith, 2021). The conceptual understanding of Ubuntu as a way of life in societies suggests that this philosophy may potentially provide guidelines for corporate governance aimed at entrepreneurial sustainability. Van Norren (2023) posits that the Ubuntu philosophy extends beyond common human life to the economic principle of sharing, in contrast to the profit maximisation for individuals. Conceptually, such a communal shared philosophy could be described as *Ubuntupreneurship*, denoting a notion of entrepreneurship based on Ubuntu in terms of theory, pedagogy and practical application.

Sustainability is recognised as the need to balance social, economic and environmental dimensions in present and future operations (World Commission on Environment and Development [WCED] 1987). Van Norren (2023) described Ubuntu as fostering SME sustainability by harnessing the alignment and harmonisation of the social, economic and environmental dimensions, as the protection of the earth is often referred to as Mother Nature. Crippen (2021) posits that the ethos of Ubuntu exudes a metaphysical relationship between human life and the natural universe. Sustainability requires the interdependence of present and future generations to be synchronised with respect to the interrelationships among the earth, economy and society. Bohwasi (2020) and Lopes, Suchek and Gomes (2023) advocate for the integration of the Ubuntu philosophy into entrepreneurship models. Building on the advice of Swartz, Amatucci and Marks (2017) regarding the need for contextualised solutions, this study examines how the integration of Ubuntu may provide an alternative framework to support the sustainability of SMEs in the South African context.

The word 'Ubuntu' originated from an African language and has strong African roots. According to Van Norren (2023), the Ubuntu philosophy is centred on people and their well-being, providing them with a sense of identity in relation to others and the wider world, along with its humanitarian issues. When someone follows the tenets of Ubuntu, they

prioritise the needs of others above their own and exhibit friendliness, warmth and compassion. To apply Ubuntu concepts to enterprise sustainability, it is necessary to develop an Ubuntu-driven entrepreneurship model. Existing entrepreneurship approaches have been conceptualised based on profit maximisation ideologies that disregard the communal existence of individuals within their communities. Consequently, corporate governance principles, as advanced by Jensen and Meckling (1976), are rooted in profitability for shareholders as the ultimate measure of firm sustainability. Good corporate governance provides a framework for appropriate behaviour, strategic direction and wise business decisions (King 2009). Maintaining accountability, equity and transparency in the application of organisational structures, processes and procedures relies on sound corporate governance (King 2009, 2016). The application of corporate governance aims to foster sustainability within an enterprise's operations. In other words, capitalism-driven corporate governance models emphasise the maximisation of self-economic benefits as central to sustainability, contrasting with the principles of shared communal benefits espoused by the Ubuntu philosophy. This suggests that the Ubuntu philosophy is embedded only in society and not recognised as a viable entrepreneurship governance model. The failure to integrate enterprising and societal philosophies has hindered progress towards reconstructing an Ubuntu entrepreneurship governance model.

## ■ Corporate governance theoretical frameworks

Useful in shaping our understanding of the relationship between governance and the sustainability of firms, these traditional theories explain corporate sustainability based on continued profitability while disregarding social and environmental aspects. Corporate governance framed from shareholder theoretical perspectives primarily focuses on optimising wealth creation, neglecting broader stakeholders, specifically society. The narrow perspective of shareholder theory has been critiqued in the literature (Freeman 1984; Galbreath 2011; Hutchison 2011; Muswaka 2014), leading to the advancement of alternative theories such as enlightened stakeholder, stewardship, resource dependency, transaction cost, stakeholder and others. Despite these shortcomings in traditional corporate governance theories, there has been little focus on integrating the Ubuntu philosophy into the epistemology of entrepreneurial governance in research. In this regard, this study argues that while lessons can be drawn from Western philosophy-driven corporate governance practices, these should not be imposed on different contexts, particularly in African societies and specifically in the South African context. This study advocates instead for

the development of Ubuntu philosophy-driven corporate governance in entrepreneurship approaches that embrace African ideologies, which transcend self-centric entrepreneurial paradigms.

## ■ ***Unhu-Ubuntu* and corporate governance**

Masitera (2019) explains that the terms *Unhu* and Ubuntu have philosophical and cultural connotations. *Unhu* is a term originating from Zimbabwe's Shona culture that emphasises the value of relationships, community and the interconnectedness of all people. Similar ideas are present in Southern African cultures, particularly in the traditions of the Nguni Bantu people. Ubuntu emphasises values such as humanity and compassion, as well as the interconnectedness of all people (Mandova 2016). The intricacies between Ubuntu and entrepreneurial models suggest the need for enterprises that foster mutual benefit among society, individuals and businesses. This approach would also involve embracing a corporate governance philosophy that considers the well-being of society. Consequently, SMEs would recognise society as the source of their existence, aligned with its purposes and philosophical framework.

Andersen (2015) highlights that corporate governance encompasses the set of guidelines, customs and procedures that dictate how an organisation is run. Embracing Ubuntu entails balancing the needs of various stakeholders, including the government, community, suppliers, consumers, shareholders and managers. If SMMs incorporate *Unhu* or Ubuntu principles into corporate governance, they should embed and integrate values such as community, empathy and interconnectedness into their processes. Integrating more ethical and socially conscious approaches would lead corporate decisions to positively impact the larger community (Moore & Petrin 2017). It appears that ethical perspectives hold promise for including societal values in entrepreneurship models. This study, however, argues that the conceptualisation of the social context in terms of its values, beliefs and philosophies should foreground the enterprise culture, rather than merely being conceptually tolerated.

## ■ **Intersections between *Unhu-Ubuntu* principles and corporate governance**

The nuances of the intersections between *Unhu-Ubuntu* principles and corporate governance extend beyond stakeholder engagement, highlighting the importance of valuing the needs and welfare of all involved parties, not just the wealth of shareholders. Stakeholder engagement encompasses the environment, nearby communities, workers and customers (Dube 2016).

Ethical decision-making incorporates humane and compassionate principles into business operations, allowing for ethical considerations in areas such as competition, pricing and other marketing principles in SMMEs (Khupe 2014). Community development should support programmes that align with the communal values intrinsic to *Unhu-Ubuntu* and promote the growth and well-being of local communities. Small, medium and microenterprises ought to enhance their social contracts with local communities by improving infrastructure, maintaining road networks, and supporting hospitals and clinics, which would enable SMMEs to sustain their relationships with potential customers. Long-term sustainability intersects with corporate governance by prioritising environmentally and socially responsible business practices over maximising short-term profits. Inclusive leadership, which encourages team-oriented approaches that value diverse perspectives, is essential for Ubuntu-driven corporate governance (Mabele, Krauss & Kiwango 2022).

According to Rushwaya (2018), it is important to remember that the application of *Unhu-Ubuntu* principles in corporate governance can differ based on the industry, the company's objectives and the cultural context. Without a doubt, the sustainability of SMEs has broad macro implications for employment creation, contributions to gross domestic product and overall productivity in the country. The connection between SMEs and the Ubuntu philosophy is reinforced by the coexistence of these entities with the social and economic needs of society. Small and medium enterprises embody Ubuntu by enhancing the humanity and human dignity of people through the provision of goods and services (McClune 2018). Safeguarding human dignity and humanity captures the essence of Ubuntu (Van Norren 2023). The African Ubuntu philosophy, from time immemorial, has been informed by and maintained through the beliefs of solidarity and communalism. Bohwasi (2020) contends that there is a common perception that the communal emphasis of Ubuntu stands in contradiction to the principles of profit maximisation. The major challenge is how to bring the Ubuntu philosophical approach to the forefront of existing modes of entrepreneurial governance to promote sustainable enterprise. Therefore, it is important to investigate how entrepreneurial governance can be reconfigured to integrate Ubuntu philosophy in order to build sustainable enterprise models that align with the ideologies of African societies (Warikandwa et al. 2023).

A plethora of studies have been conducted in response to concerns regarding the continued high failure rates of SMEs in South Africa (Ghag, Acharya & Khanapuri 2022; Kindström, Carlborg & Nord 2022). Various factors, such as a lack of skills in financial management, marketing, operations and corporate governance, have been identified as hindering the sustainability of SMEs. Motivated by the ongoing failure of SMEs over a

14-year period, Swartz et al. (2017) conducted a historical literature review on the contextualisation of SMEs in South Africa from 1986 to 2017. Their findings identified six contextual dimensions that shape entrepreneurship in South Africa; however, these dimensions have not been adequately explored in the literature. The six contextual factors are historical, institutional, business, social, temporal and spatial dimensions, all of which have not been sufficiently addressed in previous studies. Going beyond merely identifying factors that influence SME sustainability, Swartz et al. (2017) referenced Baker and Welter (2018) to emphasise the crucial need for research to focus on theorising the context rather than just contextualising the theory.

## ■ Critical theory research paradigm

The critical theory perspective, which allows for questioning dominant ideologies, will be adopted as the theoretical framework for unlocking and emancipating entrepreneurial governance towards Ubuntu entrepreneurship governance. Bronner (2005) describes the major characteristics of critical theory as scepticism; it does not accept ideas simply because they have long existed. It is concerned with social realities and has an interdisciplinary nature that enables it to draw connections between different subject matters. Integrating Ubuntu into corporate governance practices in entrepreneurship goes beyond merely transplanting and imposing doctrines; it requires a critical discourse to advance our understanding of the realities of an Ubuntu-guided entrepreneurship model. Through the lens of critical theory, this study posits that diverse and alternative realities exist, differing in both context and the philosophical foundations of societies.

## ■ Disrupting ethnocentric neoliberal ideologies in South Africa

Ubuntu, according to Mugumbate and Chereni (2020, p. vi), is a term used to describe a set of beliefs and customs that define what it means to be a true human being, particularly among black people in Africa or of African descent. Diverse ethnic groups hold distinct values and traditions, but they all emphasise a common idea: a true individual human being is part of a wider and more meaningful social, communal, societal, environmental and spiritual world. This concept is somewhat akin to the multiple stakeholder perspectives of corporate governance, although it is rooted in Eurocentric ideologies. The principles underlying corporate governance are arguably based on the coexistence of business with humanity and the planet through the practice of sound governance principles. King (2016) underscores the

corporate governance principles that should guide sustainable corporate behaviour, emphasising the integration of social, environmental and economic dimensions. While social aspects are included in capitalist-driven enterprise governance models, their focus is limited to addressing socio-economic issues and does not extend to transforming entrepreneurship models to embrace the Ubuntu philosophy. This implies that the business perspectives and practices of SMEs continue to be conceptually informed by corporate governance frameworks whose principles often disregard the Ubuntu philosophy. Hence, there is a need to disrupt the existing neoliberal ethnocentric paradigms and move towards embracing the Ubuntu philosophy.

The performance and sustainability of SMEs, like those of any business, influence our daily lives. Therefore, the governance of these venture enterprises has both theoretical and practical implications for society. Small enterprises provide goods and services, contribute to tax collection for public use and create employment opportunities. South African SMEs are major contributors to the gross domestic product, employment and overall economic development (NISED Masterplan 2022). Given that corporate governance practices affect SME performance, we can assume that these practices play a crucial role in driving economic development. It is, therefore, important to further explore the governance of SMEs at all levels.

## ■ Theoretical frameworks underlying corporate governance practices adopted by small and medium enterprises

The globally recommended corporate governance principles and practices were conceptualised on capitalism and free market ideologies of maximisation of profits for the firm owners (see Cadbury Report 1992; Fama 1980; Jensen & Meckling 1976). The agency theory considered corporate governance as a mechanism to protect the investment interest of the shareholder against appropriation by management and internal stakeholders (La Porta et al. 1997). Fama and Jensen (1983) theorised in the agency theory which postulates the maximisation of profits, internal control and monitoring of the action of management decisions and operations can improve corporate governance of SMMEs. It appears that although the codes of corporate governance principles and practices are different the principals' duties of the board, openness and disclosure, rights of shareholders and equitable treatment of shareholders are commonly held as mechanisms of firm governance that enhance sustainability (see King 2009, 2016). The theoretical implication of the agency-principal



theory is profit maximisation through corporate governance. In other words, corporate governance promotes the sustainable generation of profits by setting up structures, processes, procedures and principles that control and minimise the pursuit of self-interest by management.

These corporate governance principles have been adopted across various sectors, including SMEs. Corporate governance was conceptualised based on traditional theories such as shareholder theory, transactional theory, stewardship theory and agency theory, all of which emphasised profit maximisation while neglecting the broader societies in which businesses operate. Ideologically, agency theory is rooted in a dominantly capitalist and market-driven approach, which excludes stakeholders (Matashu 2016; Pandya 2011; Solomon (2011). Freeman (1984) proposed stakeholder theory to incorporate individuals whose actions may impact how businesses operate in achieving their corporate goals, or conversely, individuals who are influenced by the actions of the business. Although enlightened stakeholder theory acknowledges that business operations are embedded in society with diverse, competing interests, it does not explicitly promote the transformation towards Ubuntu entrepreneurship models. Often overlooked is the fact that entrepreneurial activities should not be seen as separate from the philosophical precepts of the society in which the entity operates. Moreover, distinctions between SMEs and large corporations should be based on their nature and form.

## ■ Characteristics of small and medium enterprises

As a point of departure, most SMEs, unlike corporate forms of ownership, do not begin with the privilege of receiving large capital injections from multiple investors. At most, these entities are self-funded and owner-managed. The funding and ownership characteristics of SMEs set them apart from large corporations in terms of limited liability, legal persona and corporate governance practices (Abor & Adjasi 2007). Corporate governance frameworks are based on the legal principles of separation between ownership and control (Fama & Jensen, 1980). It is often overlooked that the control systems inherent in corporate ownership have very limited applicability to owner-funded and controlled SMEs. Entrepreneurship entities are primarily owned, funded and operated by the owners, resulting in no separation of ownership from control as seen in corporations. Given the fundamental differences between these two forms of ownership in organising economic activities, it is questionable whether the mere adoption of corporate governance principles in SMEs



constitutes an onerous burden on these small businesses. The concern that arises is whether implementing existing corporate governance frameworks in SMEs, without considering the differences in ownership and the nature of these entities, conflicts with the principles of agency theory.

## ■ Conception of Ubuntu philosophy

The conceptualisation of corporate governance in SMEs has not only neglected the theoretical and epistemic gaps between the governance needs of large corporations and SMEs but also suffers from philosophical incompatibilities. The Ubuntu philosophy is perceived to be non-existent or insignificant, despite being a central philosophy in African societies. Ramose (2000) lamented that writings on Ubuntu African philosophy began only recently, as it had never fully developed because of colonisation and there were few sources available. Ramose (2000) further explains that Eurocentric perspectives regard African philosophy as entirely non-existent. These assumptions stem from the belief that Ubuntu African philosophy lacks a written tradition and that its origins are rooted in communal and mystic thinking. If the assumption that African philosophy does not exist is valid, does it imply that no people ever existed in African societies? Or, if they did exist, did they live without beliefs, values, or a logical way of thinking? If this premise is invalid, could the non-recognition of African philosophy be considered a form of epistemic violence against it? Kaphangawani (2004) argues that Western philosophy was once unwritten and arose from communal thought.

The continued existence of African societies demonstrates the presence of concepts and ideas. Oruka (1996) contends that African philosophy does not need to conform to the Western tradition of being documented to be considered valid. Oruka (1996) further argues that African philosophy has valuable insights regarding identities and the diversity of different realities. These views suggest that Ubuntu philosophy should contribute to the conceptualisation of entrepreneurship governance in African societies. Unlike Western capitalist ideologies, Ubuntu philosophy espouses communitarian ideals, emphasising that society is greater than the individual. Applying Ubuntu ideology to entrepreneurship seeks to establish mutual benefits between individual interests and societal well-being. Conceptualising an enterprise from an Ubuntu perspective entails viewing it as an asset that exists for the common benefit of society.

South Africa, like several other Bantu-speaking societies, ascribes to the Ubuntu philosophy. As a social science, Ubuntu does not have a

universally accepted definition, although it represents a transcendental, binding way of life and thinking in African communities. Bohwasi (2020) stated that Ubuntu refers to a set of principles and behaviours that Black Africans or those of African descent believe define who they are as true human beings. Despite the subtle differences in beliefs and practices among various ethnic groups, they all convey the same message: a true individual human being is part of a larger, interconnected reality that is social, ecological, spiritual and communal. Radebe and Phoko (2017) characterise Ubuntu as an African way of life based on several tenets that constitute meaningful substance, extending beyond all facets of daily life and interactions with others and the wider world. This worldview or attitude serves as a set of guiding principles related to philosophy. Philosophy is the study of nature and the foundation of knowledge, reality, ethics, logic and existence. It also aims to explain human thought and perception of the world around us. One of the most accepted descriptions of Ubuntu is found in the dictum of Justice Mokgoro in the Makwanyane case, para [307], where it was stated that:

Ubuntu is often translated as 'humaneness'. It translates as personhood and morality in the most basic sense. Umuntu ngumuntu ngabantu, which translates to 'a person is a person through/because of (other) people', is a metaphor that describes the importance of group unity on survival concerns that are crucial to communities' survival. It refers to humanity and morality in its most basic sense, even though it encompasses the important ideals of respect, human dignity, compassion, group solidarity, and collective unity. Its ethos highlights human dignity and signals a change from conflict resolution to cooperation. The Western cultural legacy places a high priority on respect for life, which is reflected in the all-encompassing notions of humanity and... [human dignity].

Ubuntu, as highlighted in the above dictum, epitomises the epistemological belief about the essence of life for human beings in African societies. Its values recognise the nuances of the intertwined coexistence that permeates an individual's being, as defined by the larger collective society. The wellness of society is central to the definition of individual well-being. Principles for building sustainable societies are harnessed and engendered through egalitarian values (Himonga, Taylor & Pop, 2013, p. 26). Translating this to the entrepreneurial context, the Ubuntu philosophy posits that the sustainability of SMEs is co-determined by their capacity to meet societal needs. This means that no entrepreneurial activities should exist, wholly or in part, for their own sake but rather for the good of others. Thus, Ubuntu's philosophy may provide an alternative framework for sustainable entrepreneurial governance. Inferences from the discussion suggest that the conceptualisation of entrepreneurial governance should be revisited to foster and harness the mutual coexistence between the existence of the entity and society by adopting the Ubuntu philosophy.

According to Onyango (2013), the term Ubuntu refers to humanity, morality and compassion. Pieterse (2004) claims that Ubuntu places a strong emphasis on social cohesion within the community, asserting that self-actualisation is attained through participation in the collective totality, with group solidarity prioritised over the pursuit of individual goals. Unlike the individualistic, market-driven environment that informs Western entrepreneurial philosophy, African societies are founded on the Ubuntu philosophy. Arguably, neglecting the social context renders business ventures futile, as it leads entities to perceive their existence as distinct from societal values. This study is premised on the argument that integrating Ubuntu philosophy into entrepreneurship models may enhance competitive advantage and innovative opportunities for developing both business and community objectives. This is because the concept of Ubuntu embeds social cohesion and communal values that are critical for the continued survival of both society and the entrepreneurial entity.

The shared sense of individual responsibility and accountability through the principle of reciprocity fosters a sense of society's collective obligation towards one another. The values of Ubuntu align well with corporate governance principles espoused by King (2016) for advancing the sustainability of business, society and the environment through mechanisms that promote transparency, accountability, responsibility, fairness and risk management. The epistemological similarities between Ubuntu and corporate governance necessitate further reconceptualisation to integrate Ubuntu philosophy into entrepreneurial governance.

## ■ **Ubuntu as an entrepreneurship philosophy**

Translating the Ubuntu philosophy to the enterprise world entails that entrepreneurship should promote a mutual symbiotic relationship between entrepreneurial activity and the common good of society at large. The view that an enterprise is communal reinforces the notion of its resourcefulness, embodying the ideals and spirit of togetherness, where an individual is seen as part of a larger community. The substantive content of Ubuntu embodies its values and principles, serving as the glue of humanness that connects the fabric of human lives in society. This perspective resonates with the idea that the pursuit of one's good should enhance the common good for the community. According to Ncube (2010), business is communal and profits should be shared by all parties involved rather than going to any one person. Ncube (2010) also states that the Ubuntu principle promotes inclusive and circular decision-making, wherein the group's aims take precedence over individual ones. For instance, communal ownership of a business allows it to draw on shared resources, such as borrowing funds when it struggles to cover salaries and operational costs because of

its reliance on core relationships. When a small business cannot pay salaries during its initial months, the owners, as members of the business, may need to sacrifice their compensation for a time until the business becomes functional, receiving remuneration at a later stage.

Embedding Ubuntu into entrepreneurship raises fundamental questions about the implications of venture ownership, rationale and the resultant governance model. Conventional entrepreneurship models are founded on individualistic free-market economy ideologies that seek to maximise profits for the individual and do not recognise collective communalism (Campbell 2006). In this Western philosophy, entrepreneurship is based on an individualistic approach that venerates taking enterprise risks in pursuit of maximising personal wealth and self-interest, while disregarding the broader society in which the business operates. Attributes of entrepreneurship have been conceptualised from an individualist perspective rather than from collective communalism.

Lopes (2023) identified sustainability-oriented entrepreneurial intentions as those that focus on integrating economic, social and environmental dimensions. Sustainability-driven, Ubuntu-oriented approaches to entrepreneurship embody inclusivity and egalitarian values of society, rather than emphasising the pursuit of individual profit interests. The tenets of the conventional entrepreneurship model thus stand in contradiction to the Ubuntu philosophy and ideals as lived in societies. Major benefits of entrepreneurship include employment creation, the provision of goods and services and an overall contribution to economic growth (Ughulu, 2022). These socio-economic benefits are conceptualised as spillovers or externalities within neoliberal market ideology. Principles of market-driven entrepreneurial governance that perceive societal benefits as incidental suggest that this ideology does not acknowledge broader social benefits as central to entrepreneurial activities. Market-centred ideologies are inconsistent with the Ubuntu philosophy, which believes in the pursuit of the common good or greater societal benefits. Arguably, the Ubuntu philosophy provides a theoretical framework for extending neoliberal entrepreneurship models to encompass the greater common good.

Kasu (2017) proposed an Ubuntupreneurship model founded on Ubuntu philosophy, epistemology and ontology of humanness, personhood, solidarity, cooperation and communalism. Kasu (2017) suggests that entrepreneurship grounded in Ubuntu harnesses human dignity, reciprocity, solidarity, humanness and the pursuit of the common good collectively, which foregrounds the sustainability of enterprises within society. The rationale and motive for venture creation, from the Ubuntu epistemological perspective, is the optimisation of collective gain rather than individual benefit, which is dominant in Western knowledge systems. Arguably, an

irrefutable philosophical conflict exists between Western and African philosophies, the implications of which for the conceptualisation of entrepreneurship have not been fully explored.

The contradictions in these philosophical beliefs have fundamental conceptual implications for entrepreneurship, particularly regarding the nature and form of ownership and governance structures. Addressing the existing paradigm conflicts requires a reconceptualisation and deconstruction of ownership, goals and governance structures in entrepreneurship to facilitate a transformation towards Ubuntu values and governance models. However, the Ubuntu concept has limited consideration for the financial viability of enterprises; therefore, instead of completely discarding Western corporate governance models, it is imperative to integrate them as complementary and codependent. Currently, governance models aimed at enhancing the sustainability of SMEs are based on corporate governance ideologies that differ from the precepts of Ubuntu philosophy. Consequently, the Ubuntu entrepreneurship philosophy would require a redefinition of the ownership, goals and governance structures of enterprising entities.

## ■ **Ownership model based on *Utu, Unhu-Ubuntu***

The binaries contributing to the absence of Ubuntu philosophy may potentially be united through a collaborative and inclusive cooperative entrepreneurship model. In the context of Ubuntu, entrepreneurship is defined by Bohwasi (2020) as the support of the family business unit through the empowerment of families and communities to adopt a self-driving mindset via the transfer of knowledge and skills. This means that when a business is established, it must work closely with relatives so that various benefits can accrue to the immediate family and the larger community. Several elements of communalism are evident in starting a business from the family nucleus, as benefits accrue to family members rather than the individual. According to Rattena (2020) and Hodgetts et al. (2020), entrepreneurship rooted in the Ubuntu concept involves negotiating livelihoods through physical and mental exertion, enduring challenges and taking on odd jobs to supplement income or improve one's standard of living. Ubuntu ownership models should be grounded in collective understanding and shared values that promote sustainability. Skurnik (2002) asserts that a cooperative entrepreneurship approach allows individuals to learn to work together to manage and control the entity, serving as a platform for training and sharing skills and knowledge. Skurnik (2002) further affirms that when individuals cooperate in managing various tasks within the business, they can share and create a repository of experiences that can be passed on within the community and used to build sustainable businesses.

The Ubuntu collective values, such as group solidarity, human dignity, respect, compassion and communitarianism, are partially embraced in the sustainability concept, which integrates people, profit and planet within the business model. However, while the integration of people, profit and planet is essential, there is no specific inclusion of the Ubuntu philosophy. Consequently, the main difference between the sustainability approach and the Ubuntu philosophy is that the former is an emerging business model focused on business conduct and behaviour, while the latter represents a lived philosophy within the societies where businesses operate. Lessem and Schieffer (2009, 2010) recommended a shift towards sustainable development approaches that benefit both businesses and the communities in which they operate. Bohwasi (2020) suggested that business activities should align with the culture of the surrounding community. Arguably, entrepreneurship models that prioritise the maximisation of individual profits lack the conceptual capacity to embody the human essence. Collectively, these insights support the conclusion that the axiological and cosmological nature of Ubuntu philosophy for African people underscores the need for a transformation towards Ubuntu entrepreneurship models, which are currently absent in the literature.

The perceived shortcoming in the conceptualisation of entrepreneurship necessitates a transformation of entrepreneurial models to incorporate Ubuntu philosophy. Conventional corporate governance requires enterprises to adhere to mechanisms that regulate the behaviour of agency in managing invested resources as a means of ensuring sustainability. There are structures and processes that companies must legally comply with to reduce agency conflicts and maximise wealth creation (King 2016). Arguably, in South Africa, the sustainable development of entrepreneurship should be linked to an Ubuntu entrepreneurship framework that emphasises inclusive, egalitarian and communitarian enterprise ownership and governance.

Considering all these factors, this study proposes that the extension of the sustainability-driven corporate governance model to adopt Ubuntu must focus on the principles of communitarianism, humanity and mutuality as normative:

1. Communitarianism emphasises the individual as embedded in the larger society, meaning that all actions undertaken by a person should be for the common good of society.
2. Humanity summons a moral and ethical consciousness of human dignity, respect and the equal value of human life as the source of one's individual existence.
3. This approach promotes mutual symbiotic benefits in the governance of entrepreneurial activities for both business and society.

## ■ Communitarianism

The cooperative entrepreneurship described by Skurnik (2002) and the Ubuntupreneurship model by Kasu (2017) provide characteristics for organising economic activity through an Ubuntu-centric approach that includes both individual and societal levels. The Ubuntu principles of communitarianism can be embraced through the intersectionality between cooperative entrepreneurship and Ubuntupreneurship models of ownership and governance. Kasu (2017) emphasises that Ubuntupreneurship is centred on the inclusive participation of community members to address problems of common interest, ultimately generating wealth for the community rather than focusing on maximizing profits for individuals.

According to Kasu (2017), local knowledge systems offer entrepreneurial solutions that are sustainable and can address current issues when transferred from traditional knowledge systems. This suggests that Ubuntu tenets may create an alternative sustainable entrepreneurship model through the integration of Ubuntu knowledge systems. Ubuntupreneurship entails that enterprising should be conceived as an integral part of the community. In principle, communalism integrates individualism and communalism by regarding the individual as part of the greater collective (Radebe & Phooko, 2017; Holt & Littlewood 2018)

In the context of Ubuntupreneurship, communalism means that the community shares its economic resources in pursuit of mutual benefit for society.

Ubuntupreneurship can be extended to incorporate an ownership structure that promotes collective ownership and enterprise of economic resources within society, which aligns with cooperative entrepreneurship. Skurnik (2002) describes the cooperative model as based on the guidelines of autonomous teams that voluntarily unite to address the common socio-economic and socio-cultural needs of society through enterprise, rather than pursuing the maximisation of invested capital. Skurnik (2002) defines cooperative values as encompassing self-help, democracy, equality and dignity. Implicit and explicit insights from scholars such as Skurnik (2002), Kasu (2017) as well as Radebe and Phooko (2017) provide guidelines for the fundamental principles that should underpin the governance model of Ubuntu entrepreneurship. According to Skurnik (2002), the principle behind cooperative entrepreneurship is that it is open to all members of society to produce goods and services in the interest of the community. Skurnik (2002) further explains that cooperative entrepreneurship can be viewed as a model for organising economic resources – past, present and future – based on the principle of collective small businesses that produce goods and services benefiting society rather than generating profits from income. It is important to note that cooperative entrepreneurship differs



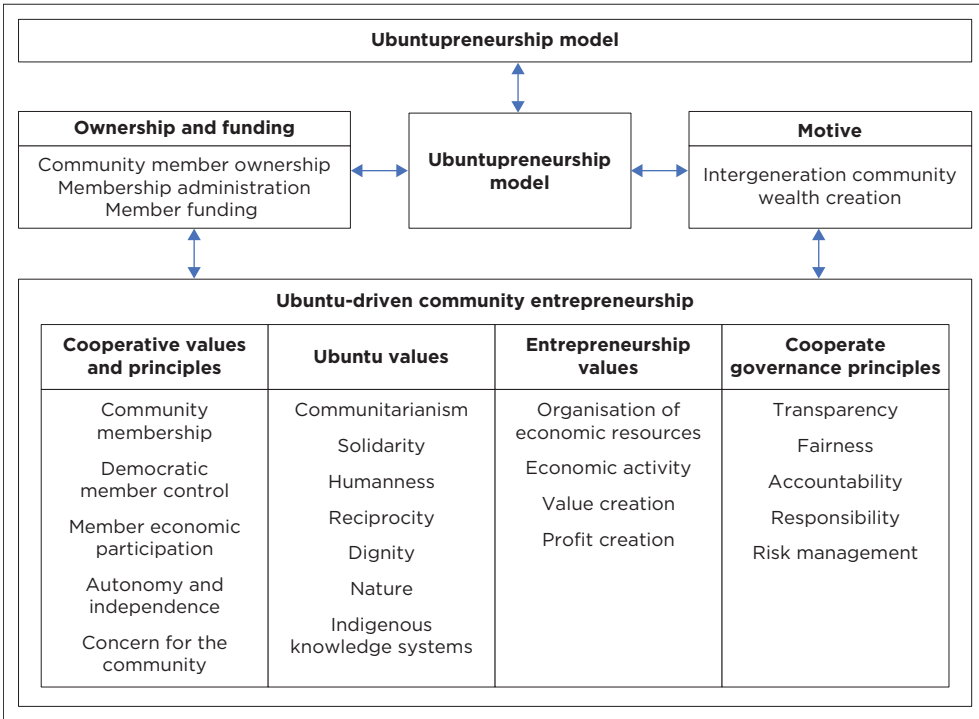
from other forms of business in terms of its basic aims, ownership structure and principles. According to Skurnik (2002), cooperatives are founded on the principles of independence, democracy, equality and dignity. Their members also uphold the moral principles of transparency, social responsibility, honesty and compassion.

## ■ Cooperative Ubuntupreneurship governance and sustainability framework

This study proposes to combine cooperative entrepreneurship and Ubuntupreneurship to design a new conceptual model of cooperative Ubuntupreneurship sustainability and governance. Because Ubuntu is based on people's moral behaviour towards one another – more precisely, how we treat others and how we are treated by others – Regine (2009, p. 21) concurs that Ubuntu encourages the preservation of humanity. Ubuntu applies to the business sector as it highlights the value of interpersonal relationships and emphasises values like harmony and care (West 2014, p. 47). Ubuntu is interrelated to the subfield of normative ethics, which focuses on defining what constitutes right and wrong behaviour and aims to create guidelines for conduct (Nicolaidis 2014, p. 18). It, therefore, requires the presentation and defence of a moral code, or what the ideal circumstance ought to be. It is widely recognised as a community-oriented philosophy that prioritises characteristics such as harmony, compassion and open-mindedness. According to Gianan (2011, p. 64) and Taylor (2014, p. 332), there has been considerable discussion on the ethical interpretation of Ubuntu. The Ubuntu proverb, 'A person is a person because of other people', inspired Taylor (2014, p. 332), to formulate an action-guiding principle: 'An action is an action because of other people'. This led to the development of a principle of ethical action. All matters discussed in this study culminated in the development of the cooperative Ubuntupreneurship model depicted in Figure 3.1.

Figure 3.1 shows the Ubuntupreneurship model. This proposed model incorporates the concept of Ubuntu as an integral part of determining the ownership, values, rationale and purpose of entrepreneurship and its governance for sustainability. The relationship between Ubuntu and the creation of sustainability should be embedded in community ownership and cooperative governance of SMEs in pursuit of wealth creation for the community. The conceptualisation of Cooperative Ubuntupreneurship is based on the integration of cooperative values and principles, Ubuntu values, entrepreneurship values and corporate governance principles in the formation and ownership of small enterprises, as shown in Figure 3.1. The proposed model indicates that community membership ownership and funding, founded on cooperative values and principles such as democratic





Source: Author's own work.

**FIGURE 3.1:** Cooperative Ubuntupreneurship centric governance and sustainability model.

control, autonomy and community membership, should be seen as antecedents of Ubuntupreneurship cooperative governance. Ubuntu values such as communitarianism, solidarity, humanness and reciprocity should be considered collectively with entrepreneurship values and corporate governance principles to co-determine the Ubuntu cooperative governance and sustainability model. This means that Cooperative entrepreneurship value creation and profit generation should be understood through the Ubuntu principles of collectivism and communitarianism. Additionally, the collective values of Ubuntu and principles such as humanness, dignity and solidarity should provide the underlying theoretical framework for Ubuntupreneurship. Moreover, the Ubuntu philosophy needs to be adopted to incorporate corporate sustainability elements, such as the profitable performance of the entity. According to Skurnik (2002, p. 10), a cooperative company is just one of the many institutions through which society organises economic activities in the most practised and efficient way. Communitarianism suggests that, rather than focusing on individually owned businesses, communities should prioritise communal ownership of businesses. Such an Ubuntupreneurship model entails that social capital within society is combined for the common good.

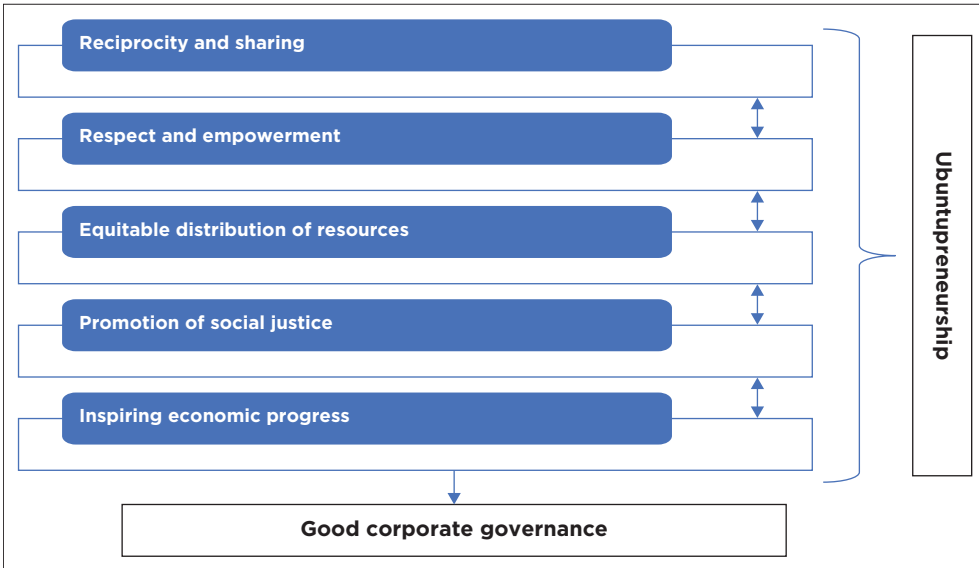
Cooperative ownership involves voluntary membership and produces goods and services in the interest of its members (Skurnik, 2002). The cooperative model, therefore, embodies the Ubuntu philosophy that seeks to benefit the community from the enterprise, rather than supporting individualistic enterprises that exploit society for self-benefit. Embracing Ubuntu values of solidarity, reciprocity and interconnectedness plays a significant role in recognising the cosmological and axiological relationships between business economic activities and the society within which they operate. African values are based on the development and existence of an individual as dependent on society, allowing for inclusive and collective ownership and use of economic resources for the benefit of the entire community.

The cooperative Ubuntupreneurship model offers an extension of cooperative and Ubuntu forms of enterprise. Adopting Ubuntu into the entrepreneurial philosophy provides a foundation that enables SMEs to transcend the unsustainable systemic ownership, control and structural challenges inherent in the conventional definition of entrepreneurship and the resultant corporate governance practices adopted to promote sustainability within the context of African societies.

## ■ Values of Ubuntupreneurship

Ubuntupreneurship, as stated earlier, is based on various philosophies developed in African contexts to facilitate wealth sharing for the common good in society.

As illustrated in Figure 3.2 reciprocity and sharing at all stages are crucial. According to Rankopo et al. (2007), in Africa, people support their neighbours, family members and fellow citizens because they value reciprocity. Residents of these communities share the hope that they may eventually find themselves in need of assistance. Respect is earned by entrepreneurs who empower others. Resources from entrepreneurship should be distributed fairly, and social justice must be advanced in every economy. Finally, Rankopo et al. (2007) contended that economic development ought to be motivated by Ubuntu rather than politics. Ubuntu is reflected in its emphasis on social justice, resource distribution, economic advancement, respect, empowerment, reciprocity and sharing. Based on the argument that Ubuntu equates to corporate governance, they serve almost the same functions. Ubuntu is a system that offers people a social safety net in several ways, including charitable contributions on an individual basis, family support, community support and societal support. According to Mertz (2016, p. 2), in the last five years, communitarian ideals significant in native sub-Saharan African cultures – specifically, ‘pre-colonial’ or ‘traditional’ black cultures, which were uninfluenced by people from other



Source: Rankopo, Osei-Hwedie & Modie-Moroka 2007, p. 61.

**FIGURE 3.2:** Ubuntu social justice corporate governance framework.

continents like Europe – have become more prevalent when considering social protection and related economic issues. Ubuntu, a word meaning humanness that originates from southern Africa (Zulu, Xhosa and Ndebele languages), aptly sums up these ideas.

This statement reflects the spirit of enterprise in the African context even before the emergence of Western business philosophies. The Ubuntu business philosophies are sustainable. If all issues pertaining to Ubuntu and corporate governance are treated with equality of humanity, the arguments presented by Whitworth and Wilkinson (2013) and Tshoose (2009) justifiably confer Ubuntu the status of an entrepreneurial philosophy and development model, possessing the capacity to promote good corporate governance qualities and traits in a sustainable South African entrepreneurship scenario. Businesses can strive to create a *Utu, Unhu-Ubuntu* entrepreneurship model that not only adheres to cultural values but also significantly enhances community well-being and the sustainable growth of society at large by implementing these suggestions.

## ■ Conclusion

Developing a *utu, unhu-ubuntu* entrepreneurship model is a revolutionary strategy that transcends traditional business and governance models. This study concludes with the development and recommendation of an Ubuntupreneurship model. The proposed model seeks to redefine

entrepreneurship within a broader societal context by incorporating the concepts of *utu* (a Maori concept of reciprocity), *unhu* (a Shona concept emphasising interconnectedness) and Ubuntu (a South African philosophy of humanity). In summary, this model encourages companies to prioritise mutual respect, community welfare and moral decision-making. It highlights the interdependence of individuals, organisations and communities, fostering a sense of collective accountability. The *utu, unhu-ubuntu* model has the potential to facilitate sustainable development, social harmony and a more holistic approach to economic prosperity by integrating these cultural philosophies into the fabric of entrepreneurship. It challenges the conventional wisdom surrounding profit-driven entrepreneurship and advocates for a paradigm shift in favour of companies that actively promote the well-being of people and the environment. This reflects a greater awareness of our shared journey towards a more compassionate and inclusive future.

## ■ Recommendations

Putting an *Ubuntu, Unhu-Ubuntu* entrepreneurship model into practice calls for a careful and comprehensive strategy. The following recommendations are intended to guide the creation and application of this model. Cultural sensitivity and understanding of Ubuntu, *Unhu* and Ubuntu principles are essential; therefore, conducting in-depth research and engaging with local communities is imperative. Tailoring the entrepreneurship model to respect and integrate specific cultural nuances and practices is crucial. Stakeholder involvement requires the inclusion of various stakeholders in the development and application of the entrepreneurship model, such as local business representatives, community leaders and citizens. Small, medium and microenterprises should ensure that the perspectives of all stakeholders are considered, fostering a sense of ownership and collective responsibility.

**Ethical business practices:** SMMEs should create a clear set of moral standards that align with Ubuntu and *Unhu-Ubuntu* values. They should prioritise honesty, equity and integrity in all their business dealings, both internal and external. Reciprocal relationships should be promoted between the company and the community, emphasizing a win-win strategy. Additionally, SMMEs should implement initiatives that directly contribute to the well-being and development of the local community.

**Social and environmental responsibility:** Entrepreneurs should consider the environmental impact of their operations when incorporating sustainable practices into their business. They should implement corporate social responsibility (CSR) initiatives that address community needs and contribute to social development.



## **Part 2**

**Ownership, governance  
practices and their  
implications for the  
sustainability of small  
and medium enterprises  
and small, medium and  
microenterprises**



# An insight into family-owned businesses, growth and sustainability

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## ■ Abstract

In South Africa, family-owned businesses contribute immensely to the economy through employment creation, taxation and the creation of goods and services. Family-owned businesses ply their trade across various sectors of the economy and this has seen some growing to the extent of being registered on the Johannesburg Stock Exchange to raise funds. Highly performing family-owned entities categorised as small and medium enterprises (SMEs) can register on the Alternative Exchange to raise funds. Despite mechanisms to raise funds, including debt from commercial banks and venture capital, family-owned entities struggle to survive beyond the third generation. The primary cause of this predicament is poor implementation of corporate governance principles, such as using a family business constitution to direct entity internal and external affairs. A family business constitution for family-owned SMEs is comparable to a Memorandum

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of Incorporation, which was formerly known as the articles of association in conventional companies. It outlines the authority of the board members and describes how internal and external affairs are to be managed. This chapter outlines how applying corporate governance principles enhances the sustainability of family-owned entities through the adoption of formal governance structures, which help resolve conflicts and promote collaboration. Adopting a family business constitution is considered a move in the right direction to govern effectively a family-owned entity.

## ■ Introduction

Family-owned businesses in South Africa exist in many sectors of the economy and their different sizes range from small to large entities registered on the Johannesburg Stock Exchange (JSE). The high-performing family-owned small and medium-entities (SMEs) are registered in the Alternative Exchange (ALtX) to raise capital through the selling of shares on a regulated platform that is easily accessible to a global market. Family entities continue to suffer from traditional challenges such as succession planning. This poses a huge threat to the sustainability of family-owned entities. This problem is exacerbated by the inadequate application of corporate governance principles to ensure the continuity of the entity from one generation to the next. Research indicates that most of the family-owned entities only survive two family generations and fail to live beyond the third family generation. Given little research on how the application of corporate governance can mitigate the failure of family-owned businesses and ensure their sustainability, this study reviews the literature in a bid to contribute to literature to this debate.

Adopting a family business constitution, appointing the board of directors, planning on how to introduce new family members to the business, appointing and announcing an heir, as well as remuneration are some applicable corporate governance principles that can enhance the sustainability of SMEs. In addition, having a family business constitution in place is likely to minimise family conflicts that may collapse the entity. A family business constitution provides a clear path of tackling conflicts as they emerge giving the entity a better chance to attain sustainability of the entity into the future family generations. This chapter highlights how SMEs in South Africa can utilise the mentioned corporate governance principles to ensure the longevity of family-owned entities.

## ■ Definition of a family business

The importance of family business to the South African economy cannot be overlooked (Venter & Urban 2015). Research by Venter, Kruger and

Urban (2010) points out that in South Africa, family businesses have been contributing significantly to the economy for at least three centuries and approximately 60% of the businesses listed on the JSE are family businesses. To understand better the concept of family businesses, we must point out that a family must exist before the business is formed. Therefore, to be called a family business, a significant amount of cooperation or togetherness must exist within the family that shares a similar goal, that is, to exploit a business opportunity while anticipating passing leadership to a younger family member at a later stage. Familiness becomes key to the exploitation of business opportunities.

Familiness as coined by Hebbershon et al. (2003) speaks to the rare amount of resources which the entity owns because of positive ties that exist within the family and interactions between individual members and the business. According to Maas (2009), a family business is a venture that is dependent on family relationships to achieve its vision which can be described as the family's vision that is passed from one generation to the next. Four key issues can be noted from the given definition, which are:

- The family (whole or part) is actively involved in the decision-making and daily running of the business activities.
- The business gets its mandate from the family who determine the strategic direction that the business must take to achieve the obligation in question.
- At least one member of the family is actively involved in the business.
- The overall goal is to sustain the business for the benefit of future family generations.

Where a husband and wife are running a business venture, that venture does not qualify to be categorised as a family business. The venture can only qualify to become a family business when their children also become critical players in the running of the venture (Venter & Urban 2015). However, the intention must remain that of passing the business to the future generation to qualify the venture as a family business. For the family to be able to influence the strategic direction of the business, they should command a large stake in the business. In other words, they should be the major shareholder of the venture in question. This is important if the family is to be able to ensure that the business is run in line with family values and beliefs.

## ■ Family businesses and corporate governance

The history of families being involved in business activities is as old as the history of the world. Families started being involved in business activities

during the era of barter trade. The Industrial Revolution only made business activities for individuals and families simple and manageable, particularly concerning record keeping. However, as industrialisation became overshadowed by information and communication technology (ICT), this opened a new sector for family-owned businesses to thrive. The most prominent family businesses globally are now found in the ICT sector (KPMG 2017). Some family businesses have managed to embrace the digital economy, in the foresight of technological changes; hence, they have evolved to become multi-conglomerate entities (KPMG 2017). Digitalisation, innovation, succession planning and governance are some of the major challenges affecting the sustainability of family-owned businesses (Liu, Zhou & Li 2023). South African family-owned businesses as part of SMEs are not immune and are the most vulnerable to the four stated challenges.

This chapter reviews the literature and investigates whether the implementation of corporate governance principles could mitigate the planning, and the overall governance challenges faced by family businesses in South Africa, that is, succession. There are no South African studies that have investigated this subject albeit calls for research on the phenomena (Fahed-Sreih 2009; Gompers, Ishii & Metrick 2003; Neubauer & Lank 1998; Sarbah & Xiao 2015). This chapter attempts to fill this void and contribute to the literature by reviewing empirical literature on family-owned SMEs and corporate governance to identify areas where corporate governance principles can be utilised to ensure the sustainability of family-owned SMEs in South Africa. According to Bhagat and Bolton (2019), corporate governance refers to a structured method of governing an entity, consisting of rules, processes and practices implemented by management and leadership to effectively direct and control the organisation. Given the importance of family-owned businesses in South Africa, the need to implement corporate governance principles for the sustained success of family-owned SMEs is difficult to overlook.

Corporate governance, in its simplest form, is a system through which entities are directed and controlled (Purbawangsa et al. 2020). This definition is centred on two aspects namely, management and stewardship. Additionally, the element of disclosure has been acknowledged to be extremely critical given that public confidence is key to running a profitable entity. In addition to disclosure, checks and balances are very important to the continuity of the firm. However, the key to all this is that concentration of power on one individual in the family businesses should be avoided to ensure that decision-making becomes a democratic approach where all players must have a say in the daily affairs of the entity. Borrowing from corporate governance principles, special emphasis is on the need for an independent board of directors with sufficient

authority to challenge family decisions. On the contrary, research indicates that family members rarely appoint a board of directors which is likely to weaken their control (Setia-Atmaja, Tanewski & Skully 2009). This implies that family-owned SMEs struggle with the implementation of corporate governance principles, and this raises questions regarding their sustainability.

The agency cost theory advocates for the separation of management and firm ownership. Thus, firm ownership should be widely distributed among shareholders, while control of the firm should be exercised by managers (Jensen 1986). It is commonly known that in family-controlled entities, the agency cost theory is applied differently as family members are also entity owners; hence, they are directly involved in managing and controlling the entity (Ang, Cole & Lin 2000). It therefore follows that there is a high probability that family members will disregard investment decisions that benefit the minority stakeholders and pursue that which increase their own wealth (Villalonga & Amit 2006). In other words, family members make use of minority stakeholders' resources to enrich themselves (Kilincarslan 2021). This is concerning given that some investment decisions approved by families may turn out to be unprofitable in the long term after incurring huge capital expenditures. Such a scenario could be easily avoided in the presence of an independent board of directors with sufficient authority, and when there is proper disclosure on how the entity utilises its financial resources, among others. This indicates that the adoption of corporate governance in family-owned businesses may potentially minimise conflicts of interest that arise between ownership and control of the SMEs.

The chapter further discusses succession planning in family businesses at length and identifies how corporate governance can make this process less strenuous and conflict-free. This is imperative given that within family businesses, management is often passed from one generation to the next as the other generation gets older, dies or retires from family business activities. By doing this, the chapter answers the question, how can corporate governance be applied to ensure a less strenuous and conflict-free succession process within family businesses? The chapter further explains how the process of deciding on a new manager is often carried out to ensure a smooth managerial transfer and sustainability of a family-owned business. The chapter unpacks governance challenges affecting family-owned businesses in South Africa. More importantly, the chapter suggests several corporate governance strategies to be used to address family-owned entity governance challenges. By taking this approach, the study answers the question, What challenges do family-owned SMEs in South Africa encounter, and how can corporate governance principles be used to overcome such obstacles?

## ■ Succession planning in the context of a family business

The intention of starting a family business is to run the entity for the benefit of the first generation (the venture creators) and future generations (the children, grandchildren or close family members) (Venter & Urban 2015). It follows that as the button is passed from one generation to the next, careful planning and thoughtful consideration must take place (Michel & Kammerlander 2015). Succession in the context of family business describes a process of choosing a leader who will assume leadership roles in the business when the current leader steps down (Renuka & Marath 2021). The new leader can either be a family member or a non-family member who then can be categorised as a professional manager. Careful planning and thinking are needed as the business risks collapse if a new successor is poorly chosen.

The advent of technology has stimulated the growth of many family businesses. Sustainable growth requires a paradigm shift, particularly in the recruitment of non-family managers into the business. By applying corporate governance principles, succession planning can be less strenuous and a conflict-free exercise (Idigbe, Tadema & Ojewumi 2021). It is therefore important to mention that corporate governance has two facets, that is, the corporate governance structure and corporate governance processes (Sarbah & Xiao 2015). On the one hand, governance structures' focus is solely on the ownership structure as well as the board structure. Its core mandate is instilling discipline and guiding the behaviour of people involved (corporate governance actors), in running the affairs of the firm, that is, the executive team comprising of the board, management and owners. On the other hand, governance processes ensure fruitful engagements to achieve the desired objectives and goals through set governance structures.

In a family-owned entity, succession planning can be very challenging especially if the founder is the one to be replaced. Replacing a founder who has been at the forefront of building a firm from 0 to 200 employees is not like replacing a leader who has grown a firm from 201 to 500 employees. The key issue is that of leadership styles required to continue the firm culture and competitiveness (Moats & DeNicola 2021). Corporate governance principles solve this issue by ensuring that the existing board and management look into the entity data to identify functional managers who are consistent in terms of performance and mentor them to become the next entity leaders (Berent-Braun & Uhlaner 2012; Leadership Dynamics 2023; Suess 2014). Business players trust and rely on existing departmental performance data in the process of choosing the next successor. Hence, relying on performance data to determine the next successor eliminates conflicts and is a less strenuous exercise.

Succession planning must not be limited to replacing the leader after quitting or retirement. Sometimes, leaders may be incapacitated, owing to mental illness and accidents, making them unable to continue their leadership duties. SpencerStuart (2021) found that during the coronavirus disease 2019 (COVID-19) pandemic era, about 75% of Chief Executive Officers (CEO) retired or stepped down, 20% resigned under pressure, 4% stepped down citing health issues and 2% resigned owing to mergers and acquisition decisions. The aforementioned statistics reiterate the importance of proactive succession planning. Smith and Conlon (2010) emphasised that the management team, that is, the CEO, board of directors and the human resources team, should regularly carry out an in-depth analysis of the existing team versus future demands of each leadership role. This allows the management team to identify the required aptitude, skill, experience, knowledge and behaviours matching the leadership role. By so doing, management can prepare and move the right people into certain positions, in other words, positioning the right individuals to take over leadership roles when the time comes.

Corporate governance is critical in succession planning as it promotes compliance and in certain markets, particularly the financial sector, there are timelines at which appointments of managers or leaders must be made and these must be observed (Arteaga & Menéndez-Requejo 2017). Adhering to corporate governance principles compels the firm to make succession appointments within the set timelines to avoid investor panic, lack of leadership and unnecessary disruptions on the value-chain.

According to research (see Bertschi-Michel, Sieger & Kammerlander 2019; Caputo et al. 2018; Chang, Mubarik & Naghavi 2021), several challenges can hinder a successful transfer of the business to a new leader which include but are not limited to:

- A leader who does not want to relinquish leadership roles.
- A leader who is in denial and does not accept the fate of life that everyone dies.
- A leader who thinks children will never achieve anything meaningful without him or her having a part in it.
- A leader who does not realise the need for new ideas, skills and knowledge as the environment is changing.
- A leader who refuses to find a successor.
- A leader who chooses only a person who sees things from his or her perspective as if it is only his or her opinion that matters.

The scenarios highlighted here emphasise the role of leadership in succession planning if the family business is to remain sustainable. Basically, participative leadership is critical as opposed to the autocratic leadership style in any society, including in business ventures. This is because every

person involved in the day-to-day operations of the venture has something valuable to contribute ranging from business management expertise, technical expertise, customer management skills and marketing as well as human resources skills. Collectively, the mentioned skills play a pivotal role in fostering the sustainability of any family business.

It is also important to note that succession planning is not the sole responsibility of the leader. Every family member who is involved in running the venture has a role to play in succession planning (Umans et al. 2020). Given that not all family businesses are wholly owned by an individual family, it therefore follows that when there are other shareholders involved, the whole succession process must be transparent to their satisfaction. A non-transparent succession process will result in investors losing confidence in the new leader and this may result not only in conflicts between the family and non-family shareholders but ultimate failure of the business. To ensure a transparent succession planning process, a family constitution can be a very effective way of dealing with and managing succession planning (Vasquez 2017).

The role of the family constitution, which must be set up by family members, is to bind their actions and inactions, as far as the leadership of the entity is concerned (Siddiqui 2018). The use of external consultants in setting up the family constitution can prove to be vital. The constitution may include clauses and guidelines on when to notify heirs of the business, recruitment and dismissal of family members, the procedure for handling key leadership roles in the business, board of directors, enactment of governing policies, share ownership to non-family executives and amendments to the family constitution among other integral issues to the smooth running of the family business (Arteaga & Menéndez-Requejo 2017). Having a family constitution does not guarantee that the succession planning process will be smooth or that there will not be disputes in the management of the business; however, it provides a route map for handling issues as they materialise including an emergency transfer of leadership (Idigbe et al. 2021).

Not all successions will be similar given the changes that exist in the macro environment which influence the culture of one generation to the other. In addition, the industry in which the business operates also determines how urgent succession planning is needed. Competitive industries would need a robust succession plan whereas stable industries may not require such. However, the bottom line is that succession is inevitable although it may not be imminent. The challenge is that the absence of a succession plan complicates the smooth running of the business venture (Cater, Young & Alderson 2019; Hillebrand 2019; Umans et al. 2021). Stakeholders are generally



concerned with the continuity prospects of the venture. Therefore, a clear succession strategy that enables stakeholders to identify the successor of the business can simplify a complicated process. Consequently, corporate governance principles – which include establishing a family constitution, creating a stakeholders' agreement, implementing a code of conduct and developing a remuneration structure for the board of directors and senior management – are designed to streamline succession planning and should be incorporated into family businesses (Umans et al. 2021). Other critical governance structures that can smoothen the succession planning process in family business include having advisory boards, a family council and setting up a formal induction process for introducing new family members into the business, among others (Idigbe et al. 2021).

## ■ Managing succession planning in the family business for sustainability

Succession planning in family businesses is not an easy task given that it is mainly associated with problems that are emotional and non-technical in nature (Parada et al. 2020). Resultantly, it is a risk that can have negative consequences leading to the total collapse of the business venture. Therefore, to avoid such a phenomenon, succession planning as a process needs to be carefully managed through established corporate governance structures (Michel & Kammerlander 2015).

Accordingly, research has established that there is a significant positive relationship between governance structures and the success of the succession planning process and that there is a positive correlation between governance structures and the management of succession planning (Renuka & Marath 2021). Findings from several studies reveal that the presence of a proper corporate governance structure ensures that there is harmony leading to consolidated efforts from family members towards the success of the enterprise (Brenes, Madrigal & Requena 2011; Hillebrand 2019; Sreih, Lussier & Sonfield 2019).

Despite the positives that succession planning brings to family businesses (Umans et al. 2020), research indicates that most family businesses either defer succession planning (Gilding, Gregory & Cosson 2015) or ignore the process altogether (Decker et al. 2016; Josefy et al. 2017). However, for those who choose to undertake succession planning, it is crucial for everyone involved to remember that the long-term survival of the family business largely depends on selecting the right successor and adhering to sound corporate governance procedures (Renuka & Marath 2021).



Research conducted in Taiwan revealed that most family businesses fail to put together a succession plan owing to the absence of a dedicated succession planning department (Huang 1999). The fear of negative consequences associated with succession planning, the small size of the family business and the existing top management not considering it a priority hinder successful family planning (Huang 1999). Previous research investigating obstacles to succession planning in intra-family businesses identified individual relationships, the business context, and financial circumstances as significant challenges (Daspit et al. 2016), and these factors are discussed in this section.

## ■ Individual relations and succession planning in family businesses

In choosing a successor, the goal of many families is to minimise conflicts by either publicly announcing the successor sooner or making the announcement at a later stage (Chang et al. 2021). In some instances, family members may position themselves to become the preferred successor, which can lead to disputes when another person is ultimately chosen. To manage such situations, most families utilise a joint management team, assigning family members or children with complementary skills to various roles that encourage growth and maturity in their distinct but interconnected responsibilities (Nonkwelo 2019).

Other families allow children to take an active role in running the enterprise from an early age. This is common in farming business environments and in some cultures, for example, Indians. This approach is supported by two theories. The first is the Bernelli Entrepreneurial Model (BEM) which points out that children who are brought into family businesses develop and acquire skills required for the success of entrepreneurial ventures quickly.

The second theory is the Bernelli 5 + 5 + 5 Model of Entrepreneurial Learning which suggests that as children grow into adulthood, they have the capacity to develop and nature entrepreneurial knowledge they gain through observing family members who are active in business activities (Mischel & Iannarelli 2011). Thus, in Bernelli's earlier model, children are directly involved in running the business whereas in the later model, they are observers and learn through observation. In support of the two theories, research also mentions that it is important for the younger generation to gain acceptance, credibility and legitimacy from family and non-family through hard work and commitment to ensure successful succession (Van der Merwe 2011). Having experienced individuals being chosen as successors may enable the business to grow and sustain profits resulting in the long-term survival of the business.

## ■ The business context and succession planning in family business

Choosing a successor who is knowledgeable about the sector in which the business operates is critical to the long-term survival of the family businesses. More importantly, the person earmarked to succeed the current incumbent leader must be willing to take over once the leader retires (Chang et al. 2021). Before the leader retires, the new leader must be allowed to develop the correct leadership skills relevant to the context of the entity which may be entrepreneurial or managerial in nature or both (Voeller, Fairburn & Thompson 2002). Acquiring the right knowledge regarding challenges and opportunities within a given sector will enable the chosen to contribute immensely to the business from the very first day of taking over as opposed to a candidate who has no knowledge of how the sector operates (Smith & Conlon 2010). By the time the chosen leader acquires the right knowledge, the firm may have lost its competitive advantage to competition, and hence, choosing a successor with the correct sector knowledge is critical to the sustainability of the family business.

## ■ Financial issues and succession planning

Careful management of finances by the founder before retirement is critical. The mistake most founding families make is to expect the business to continue taking care of them when they retire (Venter & Boshoff 2007). The business may not have the capacity, and this would lead to its collapse as the burden placed on the business may be too much to handle. In addition, the retired family members may not agree with decisions that the new leadership intend to pursue, for example, business expansion (Venter & Urban 2015). The founding leader may focus more on protecting their interest at the expense of investing in new viable entrepreneurial opportunities. Better financial planning is key to ensure that retired family members do not expect the business to look after them as this would lead to micro-management and a prolonged decision-making process.

## ■ Ensuring sustainability of the family business for future generations

Familiness is critical for sustaining the business for the benefit of future generations. Within all families, relationships are dynamic meaning there are times when individual relationships and interactions among family members are at their best, but such times do not last forever (Haberman & Danes 2007). Unhealthy relationships and interactions are the family businesses's biggest threat to existence therefore it is critical to have procedures for proper handling of differences within family members to

ensure sustaining the business for the benefit of future generations (Hjorth 2016). Research indicates that community-level social capital, which refers to shared empathy, common beliefs, and problem and conflict resolution techniques are the determinants to the long-term sustenance of a family business (Glover & Reay 2015; Kaunda & Nkhoma 2013). Having a family constitution is one way to resolve differences procedurally without compromising the competitiveness of the firm (Vasquez 2017).

## ■ The transfer of management to the new successor

It is important to acknowledge that succession is a two-step process involving the selection of the successor and the actual transfer of authority to the successor (Chang et al. 2021; Megaravalli & Sampagnaro 2019). Under normal circumstances, the actual transfer of leadership happens when the leader retires. The incoming leader must be able to work independently and provide leadership to the entire workforce to ensure the continuity of the enterprise. The new leader must be a person who understands the diverse needs and motives of critical stakeholders, who are the family members, employees and investors (non-family members). As far as employees are concerned, the new leader must understand the different career stages of the workers have an influence on the likely contributions they are prepared to sacrifice for the survival of the business.

More importantly, the new leader must be able to manage conflicts by channelling the rivalry between family and non-family members towards productive activities. That is important as it may result in the new leader earning valuable respect from both family and non-family members. Leadership should be transferred to a person who has significantly contributed to the profits and sustainability of the entity before they become leaders (Smith & Conlon 2010). For example, in a law or accounting firm, the person must have brought a significant number of clients who are willing to do business with the firm for a very long time. In simple terms, the new leader must have earned their entry by demonstrating that they can contribute to the enterprise's sustainability and financial health (Venter & Boshoff 2007).

## ■ Governance challenges in family business

Research in South Africa indicates that one in four businesses that are categorised as family businesses get to make it into the next generation with only one in ten making it to the third generation (De Alwis 2016; Makiwane et al. 2017; Venter & Urban 2015). Evidence from Pakistan and Sri Lanka also points to a similar trend indicating that this is a global phenomenon (De Alwis 2016; Sheikh 2015). In Greece, they often point out

that the founding family makes money, and the second-generation family, who the business is passed to, spends it while the third generation is most likely to lose it. It is not only the Greeks that subscribe to the previous assertion, but South Africans also do. Therefore, it is quite clear that the success of a family business depends largely on how each family governs the business during its leadership period (Adendorff & Boshoff 2011). Good governance is critical for the survival of family-owned entities and other forms of businesses in general. In South Africa, the King Report seeks to enhance better governance for all firms by placing governance concerns in the public domain. Research that links the long-term survival of entities to good governance exists (see Adendorff et al. 2008; Vaida 2005).

The major contributing factor to the demise of many first and second-generation family businesses in South Africa is their inability to deal with the stress and complexities associated with ownership and passing on of the business from one generation to the other (Bizri 2016; De Massis et al. 2016). The major sources of contention are differences in individual goals, generational differences and complications associated with gender (Felix & David 2019). Family businesses that began operating with their affairs entirely managed by men often suffer from gender bias when it comes time to pass on the baton; the preferred candidate is typically a son rather than a daughter (Byrne, Fattoum & Thebaud 2018). Gender dynamics have been found to have the propensity to hinder valuable knowledge transfer essential for business success to daughters by their fathers (Garcia et al. 2019; Nelson & Constantinidis 2017).

Gender bias may lead to sons gaining better competencies and skills to run businesses despite them having no interest and qualifications in running a family business (Glover 2014). The African culture also perpetuates the challenge of succession planning in the family business as it is gender biased. A family headed by a parent who happens to have daughters and no sons, upon the death of both parental family members such as uncles often interfere and claim ownership of the business. As mentioned earlier, having a formal induction process to introduce new family and non-family members into the business can overcome issues of gender bias and African culture resulting in better continuity of family-owned entities in South Africa.

## ■ Applying corporate governance principles to mitigate family business challenges in South Africa

In South Africa, corporate governance is highly enforced through formal legislation that is the *Companies Act, No. 71 of 2008* and the Companies Regulations of 2011 (Katzew 2011). The South African High Court, the

Companies Tribunal and the Companies and Intellectual Property Commission individually have various areas they oversee as indicated in the *Companies Act*. Company shareholders are also expected to enforce corporate governance rules during meeting sessions held by the entity in accordance with their influence and rights afforded to them by the company law (Jijana & Chetty 2015; Kloppers 2013). Thus, shareholders do possess a significant amount of influence which comes in handy in the monitoring and evaluation process of the entity's daily practices (Rossouw, Van der Watt & Rossouw 2002).

When shareholders primarily participate and exercise their voting rights at the entity's annual general meeting, or in any other entity meetings, they will be applying corporate governance principles. Another example where shareholders apply corporate governance practices is when they participate in the restructuring process of the existing board of directors (Rossouw et al. 2002). This could be a new member being voted in, voted out or replaced. The question therefore is how do principles of good corporate governance outlined in the *Companies Act 71 of 2008* and the common law apply to small family-owned businesses? In South Africa, every public company must be enacted according to the *Companies Act 71 of 2008* and must have its constitution, better known as the memorandum of incorporation (MOI). The MOI is very important as it indicates the entity's scope, legal powers and how it should be governed. Like large entities, family-owned entities can adopt a family business constitution which can then allow the business to establish a family business council, or any other structure specifically designed to formally look into important matters of the business such as succession planning (Michiels et al. 2014; Umans et al. 2020). A family council is a regular gathering of family members, and it is formed to enhance communication and sharing of ideas between family members on key business issues (Brenes et al. 2011).

Although small family-owned businesses may not be registered in accordance with the *Companies Act 71 of 2008*, they can learn and apply good practice standards outlined by the King IV code of corporate governance to sustain the business. The King Code is respected worldwide because of the principles and recommendations of good practices it sets out to ensure the sustainability of firms worldwide (De Villers & Dimes 2021). Upon the application of the King Code's principles and recommendations, the entity, regardless of size is expected to flourish in four fronts namely, ethical culture, performance, control and legitimacy.

Family-owned businesses in South Africa vary significantly in sizes ranging from micro, small, medium to large entities. Most of South Africa's largest and family-controlled entities are listed on the largest stock exchange in Africa, the JSE (Mtiki 2023). Likewise, well performing SMEs can raise funds when they register on the AltX, a division of the JSE

designed specifically to cater for SMEs (Mmako 2021). Therefore, there is a need to practice sound corporate governance in areas such as corporate leadership, where a board of directors should be implemented, thereby reinforcing issues like the board structure to become imperative. There must also be a clear strategy and road map on how to appoint, remove and nominate directors and their term of office. In addition, their duties, liabilities and diversity are critical to ensure sound firm leadership. This is where a family business constitution comes in handy as it offers a formal procedure in the undertaking of these key activities that are instrumental to building good corporate governance practices.

Basically, family-owned SMEs find themselves having to implement most of the principles of good corporate governance, which are also practised by large entities to be relevant to the market and sustainability purposes (Kloppers 2013). For example, family-owned SMEs cannot afford to ignore corporate social responsibility (CSR) issues. The paragraphs to follow will dwell on board structure and practice in the context of a family-owned SME, the role of directors, corporate disclosure and CSR issues. Often, for family businesses, these will be spelt out clearly in the family business constitution which is drafted by the provisions and recommendations of the King Code IV on how to govern an entity.

## ■ Corporate leadership in family-owned businesses

The King Code recommends a board size of 12 members. This assumes that all firms are large, and this is not the case. Family-owned firms vary in size ranging from micro to large. Regardless of the board size, members of the board, also referred to as the corporate leaders are expected to set the standards, measures and controls to ensure a smooth operating environment (Kao, Hodgkinson & Jaafar 2019). Without these, people who are involved in the family business will not know how to conduct themselves (Hough et al. 2008).

A family-owned entity with sound standards, measures and controls can solve disputes easily, thereby promoting harmonious relationships for everyone involved (Carlock & Ward 2001). In addition, the board has a role to motivate the entire corporate team to work towards achieving set goals to ensure the sustainability of the entity. More importantly, the board must also challenge the executive team where necessary to ensure that decisions that are taken are aligned with the core mandate of the entity. This will ensure that available resources are effectively used to achieve the set goals (Sheikh, Wang & Khan 2013).

The board is also considered a custodian of stakeholders' wealth. In that regard, the board is empowered to scrutinise every decision that executives make to ensure that resources are used towards sustaining the

firm (Mishra & Kapil 2018). In the context of a family-owned entity, this means that the chosen entity leadership is empowered to engage the founders on every decision they put forward. The board also plays the role of reviewing and advising the executive team. For family-owned entities, it is a challenge to find family members who are qualified to act in the capacity of the board of directors. Taking into consideration that family-owned firms always shy away from appointing non-family members into executive positions, there is a need for family-owned entities to be flexible and increase the board size to accommodate qualified non-family members to occupy executive positions. The thinking is that they will participate in constructive decision-making to ensure the sustainability of family-owned entities, as the entity will tap into their experience, competencies and knowledge of the business world. Another critical corporate governance principle found in the King Code is board independence, which is discussed in this section.

## ■ Independence of the board

A mere appointment of directors to the board without giving them full independence to approve or disapprove top management decisions and make meaningful contributions towards the sustainable performance of the firm is a meaningless event. According to the agency theory, directors who independently participate in the activities of the firm without any affiliation to the current entity, except for their directorship are in a better position to make a meaningful contribution towards sustainable firm performance (Shleifer & Vishny 1997). On the debate of whether an independent board of directors positively contributes to sustainable firm performance, research provides mixed results.

Evidence supporting the notion that an independent director has a positive impact on firm performance exists (see Jackling & Johl 2009; Kao et al. 2019). Conversely, evidence to the contrary also exists; for example, research indicating a negative relationship (see Singh & Gaur 2009), as well as studies pointing to a non-significant relationship between board independence and firm performance (Zabri, Ahmad & Wah 2016).

Although research results are not conclusive regarding the role of an independent board in firm performance, the argument for having an independent board of directors is gaining momentum and is well-received by corporate governance proponents (Singh & Gaur, 2009). Family-owned entities often struggle to find qualified individuals to assume executive positions within the business. To address this gap, the appointment of non-family members as independent board members ensures meaningful participation in sustaining the entity. They achieve this by assuming advisory roles, among other critical duties, which require no affiliation with the family-owned entity beyond their directorship.



## ■ **Directors: Appointment, nomination, removal and term of office**

Given family dynamics, individuals involved often exhibit different economic interests and disagreements on how to effectively run the entity ensue. Thus, the management of family-owned entities is increasingly becoming a challenging task threatening their sustainability (Ismail et al. 2019). Implementing corporate governance principles such as the appointment of management or directors of the firm can resolve management issues of family-owned entities (Suess-Reyes 2017). This is because the board of directors' primary mandate is to provide management oversight, where they exercise control, allocate resources and provide the necessary information for management to undertake their duties including succession planning (Arteaga & Menéndez-Requejo 2017). The leadership to be appointed must have a clear term of office and authority, and they must be visionary and competent people to lead the family-owned entity. For example, the 21st-century business environment is dominated by technological changes; therefore, the entity directors must have a clear strategy on which technology they would exploit to ensure the competitiveness of the firm.

## ■ **Corporate disclosure**

Remuneration is a critical subject and stakeholders are paying more attention to disclosure and voting on the subject of remuneration. It should be noted that employees and management of the entity are paid by the entity. The funds they receive are funded by investors coming from all over the globe, and the directors of the firm must be remunerated fairly, responsibly and transparently. This will ensure the sustainability of the firm through sound fiscal management practices.

In the context of a family-owned entity, founders expect the entity to fund their life expenses as payback for the time they spent building the firm from the ground up (Nyamwanza, Mavhiki & Ganyani 2018). Such practices do not help as the entity may not be making money as it was during the start-up era. It is, therefore, advisable that as the founders pass on the firm to the next generation, they should retire and invest their funds elsewhere (Venter & Urban 2015). In other words, they must stop participating in the daily operations of the firm. However, from time to time, the new leadership can consult them whenever necessary as their experience is an invaluable resource (Venter & Boshoff 2007). This will ensure minimal interference in the firm's activities. If founders are left to participate in the daily activities of the firm after they have retired, they often argue against expansion projects in fear of losing their retirement



package, among other things, affecting the broad performance of the entity. This limits the survival chances of the firm as the competition landscape changes and the micro and macro environment factors demand significant changes in the business approach.

## ■ Role duality

As mentioned earlier, family-owned entities are adversely affected by the availability of qualified individuals to assume executive roles in the entity. This results in a scenario whereby the CEO has dual roles including that of entity chairperson. On the one hand, subscribers to the agency theory strongly reject the duality phenomenon and argue that this often leads to opportunistic behaviours, which have dire long-term consequences, compromising the sustainability of the entity in the process (Jensen & Meckling 1976). They further argue that to mitigate against opportunistic behaviours; there is a need to separate the roles of CEO and chairperson.

On the other hand, subscribers to the stewardship approach rally behind the duality role. They argue that it offers greater autonomy to those entrusted with maximising wealth for shareholders (Donaldson & Davis 1991). Research is needed on this subject to ascertain whether in instances where role duality exists versus where it does not, what are the firm performance outcomes and to what extent that affects the sustainability of family-owned entities.

## ■ Family entities and corporate social responsibility

Firms carry out CSR activities to demonstrate their commitment to social, economic and environmental issues affecting the citizens (Perrini 2005). In South Africa, four drivers to CSR activities are found in literature namely, market, ethics, government and social drivers (Kloppers 2013). The guiding theory in the implementation of CSR activities by firms is the Tripple Bottom Line theory (Elkington 1997). The theory emphasises that each entity is equally responsible for protecting the environment and is equally to blame for the crimes committed against the environment by its partners in the value chain. What this means is the entity must carefully choose its partners to do business with. The key issue is as the firm and its partners pursue profits, this motive must have a similar weight to protecting the planet and its people.

It is the responsibility of the family-owned entity to clearly communicate its CSR programmes to demonstrate its commitment to sustainable development. Such actions are highly valued by all stakeholders, who, in return, are likely to be satisfied to continue doing business with the firm,

leading to its sustenance. This argument is well supported by stakeholder theory (Freeman, 1984), which posits that firms are expected to establish and maintain relationships with all parties directly or indirectly involved in the entity's affairs. Firms are further expected to provide all interested parties with information they may need as CSR is aimed at creating and improving open channels of communication with stakeholders to enhance ethical and socially responsible behaviour within firms (Lim & Greenwood 2017).

As family businesses continue to contribute to the South African economy, their sustainability is critical. The most important factor of family-owned businesses is their ability to divert family values towards society, the environment and the economy at large (Bergamaschi & Randerson 2016). According to Berrone, Cruz and Gomez-Mejia (2012), to enhance their sustainability, family-owned entities preserve their socio-emotional wealth. In addition, research indicates that family values which include long-term orientation, employee relationship, social and business community, integrity, continuity and attention to reputation (Le Breton-Miller 2005), make it relatively easier for family-owned entities to implement CSR activities as opposed to non-family-owned entities (Campopiano & De Massis 2015; Nekhili et al. 2017). All matters discussed in this study thus far provide sufficient evidence that the implementation of corporate governance practices not only leads to better performance (economic and financial) of family-owned entities but also enhances their sustainability.

## ■ Diversity

The general agreement among corporate governance proponents is that a diverse board is required to ensure that the entity does not miss out on trends and opportunities in the business world. This places the firm in a better position to exploit new profitable opportunities, an important step towards sustaining the firm. However, the emphasis is that as firms seek to diversify their board membership, appointing individuals solely for their status – at the expense of competencies, knowledge and experience – will negatively impact the firm's performance and jeopardise the sustainable agenda in the process.

Establishing a board made up of people from different backgrounds can be a source of competitive advantage. In South Africa, most black people excel in soft skills which include human resources management and public service, and play an important role on issues of national interest such as transformation and gender. Although they lack hard skills, for example, engineering, accounting and actuary among others, their contribution in boardrooms is immense (SpencerStuart 2009). In addition to race, diversity is also looked at from the gender lens. The resource-based approach argues

that males and females bring varied opinions, networks and leadership approaches when attending to corporate issues (Cater et al. 2019). In addition, research also found that male executives are opportunity-oriented as opposed to female executives and this greatly affects their approach to decision-making with males being known to be more risk takers while female executives tend to be more cautious (Adams & Ferreira 2009). Based on this evidence, to ensure that family-owned entity is sustainable, a diverse board is therefore recommended.

## ■ Conclusion

This chapter discussed family-owned businesses and how the use of corporate governance principles can enhance their sustainability. The scarcity of literature from a South African perspective marrying the two disciplines, albeit calls for research, led to the researcher investigating this important subject to contribute to research on this debate. Family businesses were defined as business entities that are run by both a husband and wife with the involvement of children, biological or otherwise, taking part in daily operations of the firm to pass firm leadership and control to the children. This cycle must continue resulting in the business changing leadership as one generation passes the torch to the next generation. To ensure that the family-owned becomes a sustainable business, that is, surviving many generations, succession planning is critical. Empirical research concluded that nominating a successor early is necessary to avoid family feuds and create a clear message regarding the future direction of the firm. To ensure there are no conflicts in naming a successor, a family constitution is critical, and each family business must have drafted its being led by trained consultants to take the lead in the process.

## ■ Recommendations

This chapter discussed family business and it was revealed that the major contributor to their failure is the inability to infuse corporate governance principles on critical issues such as succession planning. Chief among these corporate governance principles is the family business constitution. It is therefore recommended that because large entities rely on articles of association as a guide on internal and external relations and operations, family-owned entities must adopt a family business constitution for similar purposes. A family business constitution will guide the business in every aspect of its operations. The family business constitution will probably have clauses to deal with the following key issues: Practising corporate governance principles which include the appointment of a board of directors, having an independent board of directors, corporate disclosure, role duality and diversity is supported by empirical research

which suggests that this may enhance the sustainability of family-owned businesses in South Africa and globally. Other critical corporate governance principles that enhance the sustainability of family-owned businesses include the pursuit of CSR activities. When a family-owned entity begins taking part in activities that matter to the community such as sports sponsorships and the building of public clinics and parks among other key considerations, this sends a clear message that the entity values humanity and the planet when seeking profits. Such a gesture positions the family-owned entity better than its competition resulting in better overall performance, thereby enhancing its sustainability prospects. As stated earlier, the adoption of a family business constitution does not guarantee the sustainability of the family business, nor does it guarantee that the entity will run smoothly with fewer conflicts. The family business constitution provides a roadmap to help the family resolve issues as they arise. This ensures that internal problems are addressed quickly, allowing the family to focus on the business's key mandate.



# Sustainability of survivalist microenterprises and their role in informal employment creation

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## ■ Abstract

Over the past few years, unemployment among young people has been rising, leading many to turn to survivalist entrepreneurship for their needs. This approach involves investing minimal capital into a business to ensure family survival, with historical roots in South Africa. Despite the growth of this sector, no research has been conducted in the Eastern Cape to demonstrate how survivalist entrepreneurship contributes to job creation and how these enterprises can be sustained. The sustainability of survivalist microenterprises and their role in creating informal employment can be enhanced through corporate governance practices. This chapter is informed by case study research conducted in the Buffalo City Metropolitan Municipality in the Eastern Cape, which employed a mixed methods research approach to explore the sustainability of survivalist entrepreneurs and their contribution to the creation of informal employment opportunities. The study is grounded in the acknowledgement by various writers that entrepreneurship, even at a survivalist level, leads to job creation. The researchers adopted a positivist research paradigm and approach. Using a random sampling technique, data were collected through structured self-administered and drop-off questionnaires. Simple descriptive statistics were used for data analysis. The study found that survivalist entrepreneurs generate a significant number of jobs, indicating their contribution to employment creation. The study recommended that survivalist entrepreneurs be given access to funding and training sessions to enhance their skills. Furthermore, the study emphasised that South African support policy should not overlook the importance of survivalist entrepreneurs.

## ■ Introduction

In an environment where youth unemployment is rampant as in South Africa, there is a need to support survivalist entrepreneurship. Recently, this type of entrepreneurship has become an area of focus. Survivalist enterprises are characterised by unemployed persons, focusing on investing little capital to generate minimum income to keep their families alive (Mbomvu et al. 2021; Mothoa & Rankhumise 2021; Ouma-Mugabe, Chan & Marais 2021).

The existence of survivalist microenterprises is grounded in the historical background of the country. Kambikambi (2003) informs us that since the apartheid era, the South African economy has been a mix of two separate distinct economies, that is, developed economy consisting of mostly white-owned and formal businesses on one hand and developing economy

consisting mostly of black-owned and informal businesses. Francis, Habib and Valodia (2021) affirm that separate economic sector development has its roots in the apartheid period when the economy was deliberately structured as non-inclusive. However, post-democracy, it appears there has been a surge of survivalist microenterprises. The informal sector in South Africa has grown enormously over the past 10 years, illustrating why entrepreneurship is seen as an important career option for both men and women (Botha 2019). People who have talents, experiences, drive and several other capabilities, nonetheless, find themselves without employment (Botha 2019). This scenario explains why many individuals resort to survivalist enterprising to earn a living and sustain their lives. Entrepreneurs are vital because they contribute significantly to employment, job creation and wealth creation (Botha 2019; Nieuwenhuizen 2019). Justifiably, it can be proposed that the survivalist microenterprises have been central to the livelihoods in underprivileged societies. Considering these points, ensuring the sustainability of survivalist microenterprises' role in informal employment creation becomes imperative.

For instance, the trends indicate that South African youth suffer from the triple challenges of poverty, inequality and unemployment (Cramer, Sender & Oqubay 2020; Francis, Habib & Valodia 2021; Mangena 2021; Mohale 2022). The absence of formal employment to absorb the youth in an environment that is afflicted by social and economic ills further justifies the need for the sustainability of survivalist businesses to employment creation. Individuals who create business opportunities at this level do so for survivalist reasons. Survivalist enterprises do not have the power to add real economic value or create sustainable employment opportunities along the value chain (Van Aardt & Massyn 2017).

Survivalist entrepreneurship must be understood in the context of small-scale businesses. The importance of the small, medium and microenterprises (SMMEs) sector is well recognised worldwide, with such enterprises often being described as the heartbeat, backbone or building blocks of an economy and largely being accepted as significant drivers of economic growth and job creation (Bvuma & Marnewick 2020). Globally, more than 95% of businesses are SMMEs accounting for over 50% of employment (Bayraktar & Algan 2019). Because the government has high expectations concerning the SMME sector, it has made several efforts to boost entrepreneurship and SMMEs (Moise, Khoase & Ndayizigamiye 2020; Ouma-Mugabe, Chan & Marais 2021). The sustainability of survivalist microenterprises' role in informal employment creation is debatable and warrants further investigations in research, specifically from a context perspective.



Several factors, such as environmental contexts and related aspects, play a significant role in determining the survival or demise of SMMEs (Nyangarika & Bundala 2020). Recent studies (Gamidullaeva, Vasin & Wise 2020; Scheba & Turok 2020; Wiid & Cant 2021) agree that conducive business environments enhance the growth and expansion of SMMEs. However, there is a range of factors that contribute to high mortality rates in some contexts including among many others, a lack of finance (Ayandibu & Vezi-Magigaba 2021; Kanayo et al. 2021), poor infrastructure, inadequate government support, ineffective marketing, poor management or leadership, and overall bad decision-making (Cant 2021; Ogujiuba et al. 2020). Thus, despite these salient characteristics, SMMEs grow rapidly in some countries while remaining stagnant in others (Ndayizigamiye & Khoase 2018; Umadia Sr & Kasztelnik 2020). Recent studies such as those of Bvuma and Marnewick (2020), as well as Nhleko and Van der Westhuizen (2017) agree that the majority of SMMEs in South Africa are microenterprises, including survivalists with little potential for growth and, therefore, fewer likely to hire employees.

## ■ Problem statement

The sustainability of survivalist microenterprises' role in promoting informal employment creation remains a contentious issue that needs contextualisation. Verde (2019) argues that the government does not create jobs; it only facilitates processes that can assist citizens in getting employment. This suggests that alternative means of creating employment must be considered other than the formal sector (Gwija, Eresia-Eke & Iwu 2014). Every year, as survivalist enterprises increase because of scarce job opportunities, these enterprises' contribution to the economy also grows. The illusion that jobs are created by the government is a commonly held perception by most citizens, yet Mbeki and Mbeki (2016) contest that the South African government is bankrupt. The importance of entrepreneurial pursuits in South Africa is noticeable because of the increased government debts (Napwanya & Chinyamurindi 2021). The increase in survivalists also improves job creation and wealth generation (Botha 2021; Ladzani 2021; Urban 2021). Studies on informal entrepreneurship exist. This study thus aims to establish the role of survivalist microenterprises in employment creation and how corporate governance practices can assist with this in Buffalo City Metropolitan Municipality. The research problem can be summarised in the following question: Could the sustainability of survivalist microenterprises' role in informal employment creation be strengthened through improved corporate governance practices? The research aim is thus to establish whether the sustainability of survivalist microenterprises' role in informal employment creation can be strengthened through improved corporate governance practices.

## ■ Literature review

### ■ Informal entrepreneurship linkage to survivalist activities

The informal economy contributes an average of almost 30% of the gross domestic product (GDP) in emerging economies (Poumie et al. 2023). The role of the informal economy, however, is subject to widespread debate. The informal economy is not limited to survivalist activities; it encompasses entrepreneurs whose earning potential far outstrips many counterparts in the formal economy. The practice of informality results in an expansion of the informal economy as individuals are displaced from the formal economy and undertake this form of business as a way to generate disposable incomes. Mahadea (2014) explains that entrepreneurs do not form a homogeneous group; rather, they encompass many different types, each distinguishable by the type of business they start, the level of technology involved and the way the business operates and is managed. It must be stressed that there may be some overlap between entrepreneurial types.

### ■ Challenges faced by survivalist microenterprises

Insufficient entrepreneurship training and limited knowledge hinder the sustainability of survivalist enterprises. Human capital development including entrepreneurial skills and entrepreneurial education is essential for promoting the sustainability of SMMEs owned by youth. Human capital may be defined as knowledge and skills acquired by individuals from investment in education, on-the-job training and other experiential exposure (Urban 2021). It (human development) is a process of enlarging people's choices. The most critical of these wide-ranging choices is to be educated (Urban 2021). According to Urban (2021), human development concerns more than the formulation of human capabilities such as improved knowledge. It also concerns the use of these capabilities, be it for work, leisure or political and cultural activities (Urban 2021). Based on international measures of human capital development, South Africa's human capital base for entrepreneurship has been consistently weak. Urban (2021) states that it seems that South Africa has an over-abundance of survivalist entrepreneurs, that is, people who have no choice, no jobs and no option but to become self-sufficient.

Just like managerial competency and skills are important for new firm formation, the endowed level of talent for a small business founder is the investment in industry-specific and entrepreneurship-specific human capital which contributes significantly to the performance of the new small firm. In a recent Global Entrepreneurship Monitor (GEM) (2018) report, it was pointed out that a lack of education and training has reduced

management capacity and entrepreneurship in South Africa. The quality and context of the educational system do not promote the development of managerial competencies. This is consistent with the findings of Herrington (2011) that the most crucial factor hindering entrepreneurship in South Africa is the lack of education and training. The quality of basic education has deteriorated in South Africa, where more than half of the students in high schools in South Africa do not complete their matric. A lack of basic business skills is a constraint to entrepreneurial activity.

To develop Africa's economies, it is necessary to develop skill sets to enhance productivity and competitiveness at both the corporate and national levels. The GEM (2018) has shown a consistent link between education and entrepreneurial activity. Individuals with a matric, and more specifically those with a tertiary education, are significantly more likely than those without a matric to own and manage a start-up business. Most young people often lack the necessary skills, experience and expertise to start and successfully sustain a small business. This makes it difficult for them to cope with the numerous challenges facing aspirant entrepreneurs, such as the lack of appropriate financial resources and the inability to accumulate sufficient assets to provide the required collateral.

Limited formal education often leads to a sense of disempowerment and a lack of self-confidence (Poumie et al. 2023). It is, therefore, critical for entrepreneurs to receive appropriate information and training to make better decisions to solve their day-to-day business problems (Matsau 2003) and be able to enhance their performance in business.

## ■ Youth not being taken seriously

Creating a culture where youth entrepreneurship is taken seriously, including an enterprise culture and family support is necessary for ensuring the inclusivity of young people. Without entrepreneurship, even an economy well-endowed with labour, natural resources and machinery will not be able to function and deliver the best possible results. The positive and negative perceptions that society has about entrepreneurship can strongly influence the motivation of people to enter entrepreneurship (Van Aardt & Massyn 2017). Entrepreneurs tend to thrive more in an environment where they feel encouraged enough to start a business or have the confidence to choose entrepreneurship as a career path. Poumie et al. (2023) reveal how societies benefit from entrepreneurial ventures, but the economy needs to have a positive attitude towards entrepreneurship as this can generate cultural and social support, financial and business assistance and networking benefits that will encourage and facilitate potential and existing entrepreneurs.

Unfortunately, in South Africa, despite several government-pioneered interventions, the level of youth entrepreneurship, particularly in township areas remains unsatisfactory (Gwija et al. 2014) and, as avowed by Herrington (2011), a shortage of entrepreneurs in South Africa is one of the reasons for the unsatisfactory performance of our economy during the past two decades or so. Additionally, in general, South Africans are not socialised or educated to become entrepreneurs, but rather to enter the labour market as employees. In this case, they become seekers of existing jobs instead of creators of new jobs. This is still the trend, despite the very low labour-absorption capacity of the South African labour market, and the large number of unemployed and underemployed people among the economically active population. Herrington (2011) goes on to reveal how there have been few role models for aspiring entrepreneurs, particularly in the black African community. Maluleke (2016) emphasises:

Many South Africans have the wrong attitude towards entrepreneurship. This is perhaps not entirely our fault, as it is something systematic in our education philosophy that we must unlearn. We have a schooling system that encourages us to go to school in order to find a job (to be employees) and not be job creators (to be employers). In many cases, those who become entrepreneurs, especially when they start out and have not yet made the money, are looked down upon by their own families and society at large as people who are not bright enough to acquire a PhD or get that fancy job. We may not all be entrepreneurs, but we need to teach our children from an early stage that when they become students they remember not to only come out of universities and institutions of higher learning with CVs seeking employment, but to come out there with business plans looking for opportunities to employ others. (p. 31)

Herrington (2011) highlights that there is a sense of entitlement and an expectation that big businesses, government and others should create jobs, rather than creating one's own employment. This culture must be changed to inspire entrepreneurial spirit. It is important for those who venture into entrepreneurship to change this perception by working harder than the average employee to become successful in business (Maluleke 2016). It is important to develop the right attitude about being in business as an entrepreneur because this will enable the business to succeed in the first few years (Maluleke 2016).

## ■ Lack of finance

A lack of enough start-up capital is one of the factors that discourage people from becoming entrepreneurs. A sizable challenge of the National Rural Youth Service Corps (NARYSEC) Project has been the lack of funds and resources, such as land, which is necessary to help graduates with an entrepreneurial spirit to start businesses. In a market characterised by high competition, graduates coming mainly from disadvantaged family

conditions in rural areas are unlikely to compete with other entrepreneurs without concrete material support in the form of starting capital. Poumie et al. (2023) mention that government funding is regarded as necessary and inevitable for entrepreneurial development but often restricts enterprise development through stringent conditions and poorly administrated funding contracts.

Government support for small businesses in South Africa is severely lacking (Herrington 2011). As is common, commercial banks are still the primary funders of new business. Entrepreneurs face many uphill battles to secure funding and get bogged down in all the red tape. They are not sure where to look for other sources of funding and what documentation to have in place in order to persuade lenders to part with much-needed funds (Alkhuziaie et al. 2023). Therefore, they often launch their businesses using their own money or occasionally their family's money and further rely on debt or retained earnings to grow.

A comprehensive small business website should be constructed where all institutions that offer funding to SMMEs can be listed. The site, which must be kept up to date should provide contact information, what funds are not offered and for what purpose, as well as details regarding the criteria for successfully applying for funds. The application processes should be simplified to accommodate the levels of education and the standards of proficiency in English found among the majority of potential South African entrepreneurs (Alkhuziaie et al. 2023).

## ■ **Strict regulatory frameworks**

Studies have shown that the impact of administrative and regulatory burdens on youth entrepreneurship are among the most important barriers to start-ups of young people in developed and developing countries (De Beer 2015; Orford et al. 2003; Williams 2007). Government regulations and bureaucratic formalities are seen as one reason for large informal sectors in many developing countries because the costs of formalising are higher than the gain in productivity from entering the formal sector (Orford et al. 2003). Entrepreneurs face numerous administrative burdens including business registration, tax administration, obtaining investment approvals and business licenses, coping with copyright and patent regulations, competition law, access to workspace and long-term leases, construction and building permits, customs clearances, utility hook-ups, etc.

The GEM (2018) report states that stringent labour regulations in South Africa are one of the major regulatory barriers to corporate growth. The Global Competitiveness Report listed labour rules as South Africa's second-biggest corporate challenge. South Africa scored 90th in labour marketing

efficiency, 125th in inflexible hiring and firing, 123rd in pay setting and 121st in labour-employer relations out of 133 countries. Labour inflexibility discourages entrepreneurship and competition. Inflexible labour norms stifle innovation and foster entitlement. The GEM (2018) found that tight job safeguards, especially for hiring and firing, make entrepreneurship less appealing, especially for high-potential individuals. These people are more mobile and may start up shop in nations with fewer regulations. In South Africa, high-potential individuals are more inclined to start enterprises with good employment prospects, making this a worry. Regarding business regulations governing youth entrepreneurial ventures, those that are less than 1 year old should receive tax amnesty and start paying taxes perhaps after 2 years of their existence.

### ■ **Lack of awareness of available business support services**

Creating awareness of available business support services is important to promote the success of SMMEs. Lack of awareness of the existence of government programmes is another problem faced by youth entrepreneurs. Masha et al. (2022) agree that most youths are not aware of the various support programmes available and, as a result, youth with entrepreneurial tendencies perceive that there is no support from the government. Youth entrepreneurship support structures need to create an awareness campaign about their existence. This could be achieved with the help of relevant communication channels such as local radio stations and community newspapers (Masha & Eze 2022).

### ■ **Importance of promoting the sustainability of survivalist microenterprises**

The sustainability of survivalist microenterprises is crucial because it creates possibilities of transitioning from basic survivalist, pre-entrepreneurs, subsistence entrepreneurs, micro-entrepreneurs and finally to small-scale entrepreneurs. A classification of entrepreneurs into distinct types provides a framework for learners, policymakers and investors to understand the complexity of entrepreneurship (Mahadea 2014). Investors need to understand the category levels of entrepreneurs or entrepreneurial profiles to decide on the most relevant financial support they can offer. Policymakers need to understand what sort of policies are to be drawn for the different categories of entrepreneurs to address the needs of the country. There can be no single policy that fits all types of entrepreneurs and that suits all sizes of firms for securing maximum growth of entrepreneurial capacity in an economy (Mahadea 2014). It is important to promote the sustainability

of survivalist microenterprises; these are the mainstay of advancing entrepreneurial ventures. Sustaining survivalist enterprises arguably fosters the creation of informal employment by reinforcing the growth trajectory of entrepreneurial activities.

Entrepreneurs can be found at various levels of entrepreneurial sophistication based on the nature of their entrepreneurial activities (Mahadea 2014). These are (Mahadea 2014) basic survivalists, pre-entrepreneurs, subsistence entrepreneurs, micro-entrepreneurs and small-scale entrepreneurs:

- *Basic survivalists*: These are usually involved in the informal sector.
- *Pre-entrepreneurs*: These operate mainly as social entrepreneurs. Profit is not important to them.
- *Subsistence entrepreneurs*: These are usually self-employed. They conduct business temporarily.
- *Micro-entrepreneurs*: These types of entrepreneurs have few people working for them. They operate by following regulations.
- *Small-scale entrepreneurs*: The levels explain the various levels of entrepreneurs and their corresponding entrepreneurial activities.

Table 5.1 shows the trajectory from survivalist to small-scale entrepreneurs and their contribution to the informal sector. The informal economy comprises a range of businesses spanning several different industries. These are both survivalist and entrepreneurial in nature. While there is a tendency to associate the notion of informality with less established, marginal enterprises that are survivalist, home-based enterprises that are technologically advanced are common features of informal economies (Snyder 2004). Closely related to the point above is the relative size of businesses in the informal economy. Rogerson (2000) proposes a distinction between survivalist enterprises, which are generally run by a single individual, and microenterprises, which might employ up to five individuals (including the owner) but are more entrepreneurial and, therefore, have the potential to grow.

To avoid informal entrepreneurship, businesses need to be regulated. The definition of regulatory institutions refers to the formally codified, enacted and enforced structure of laws in a community, society or nation (Busenitz, Gomez & Spencer 2000). Evidence suggests that improvement of the regulatory environment may have positive benefits on the growth and survival of new ventures (Orford et al. 2003). The regulatory environment enables the various impacts of business activity to be established.



**TABLE 5.1:** Trajectory from survivalist to small-scale entrepreneurs and contribution to the informal sector.

Entrepreneur level of entrepreneurial sophistication	Feature(s)	Entrepreneurial activities
<b>Basic survivalists</b>	<p>A survivalist is a self-employed individual who operates his or her enterprise either alone or with between one and five assistants (Ntsika 2000). Survivalists are also people engaged in the informal economy, such as street vendors, car washers, subsistence farmers and shebeen operators. They might have been 'pushed' into self-employment by necessity, poverty and unemployment conditions. Their objective is just to survive. They usually have limited education, training, technical skills, resources and market growth prospects, with an annual turnover of around R12 000 (Ntsika 2000)</p> <p>Operating on the fringes of the mainstream economy, survivalist enterprises are predominantly in the informal sector and led by women. Their diversified activities earn them just enough income to survive. About 80% of female-owned businesses in South Africa are informal. The informal sector has the following characteristics: (1) Ease of entry; Reliance on local resources; Labour-intensive and adapted technology; (2) Services the needs of low-income earners; (3) Employs low-skilled labour; (4) Operates in a largely unregulated market with strong competition; and (5) Low-income tax payment</p> <p>The objective of the informal sector is to generate employment and a source of income for survival</p> <p>The abilities of the survivalist operator to create large employment opportunities are very limited. However, as a group, survivalist operators constitute a vibrant force, from which a few often graduate to startup small firms in the formal sector with employment and growth potential (Mahadea 2014). Basic survivalists have no economic independence and little involvement with other entrepreneurs within their social network (individualism)</p> <p>Basic survivalists, therefore, refer to entrepreneurs who operate businesses to survive until such time that they get formal sector jobs or good entrepreneurial opportunities (Nieman &amp; Nieuwenhuizen 2021, Nieuwenhuizen 2019). A basic survivalist would, for example, be someone selling fruit at a traffic light to anyone driving past. In a service setting a basic survivalist would be someone standing at a corner with a sign saying he or she will wash cars for R30 (Nieman &amp; Nieuwenhuizen 2021). Such entrepreneurs are unaware of their capabilities, and it is therefore not easy for them to unlock their potential. A good example is tradesmen looking for work by advertising their trades on boards outside hardware stores (Nieman &amp; Nieuwenhuizen 2021)</p> <p>Although the existence of survivalist businesses is often crushed by literature as they are perceived to be businesses that are doomed for failure, survivalist business entities are an income and job-generating alternative for the unemployed people and should be recognised and assisted by the South African Government to reduce dependency on government by the unemployed populace, as well as to improve the socio-economic conditions of this populace (Ranyane 2015)</p>	Isolated from markets, unaware of their own potential, low literacy level, few income-generating activities

Table 5.1 continues on the next page→



**TABLE 5.1 (Continues...):** Trajectory from survivalist to small-scale entrepreneurs and contribution to the informal sector.

Entrepreneur level of entrepreneurial sophistication	Feature(s)	Entrepreneurial activities
<b>Pre-entrepreneurs</b>	<p>Pre-entrepreneurs follow the group's initiative (collectivism)</p> <p>Someone who is involved in welfare-based entrepreneurship where profit maximisation is less important than the collective, for example, someone selling similar products to many other stall holders in the same market. A service business would be a shoe shiner at an airport (Nieman &amp; Nieuwenhuizen 2021)</p> <p>Therefore, a pre-entrepreneur operates as a social entrepreneur, where profit is not the motive for running the business (Nieman &amp; Nieuwenhuizen 2021). Examples of social entrepreneurs are those people who run stalls at marketplaces, selling similar products to many other stall holders at the same market. Vendors selling curios to tourists outside museums or other tourist attractions also operate as social entrepreneurs (Nieman &amp; Nieuwenhuizen 2021)</p>	Welfare-oriented approach, not expected to be self-sustaining training needed in entrepreneurial competency
<b>Subsistence entrepreneurs</b>	<p>Subsistence entrepreneurs include street vendors selling fruit and vegetables at a stall</p> <p>Subsistence entrepreneurs are self-employed and generate income independently through a temporary market stall or stand (Nieman &amp; Nieuwenhuizen 2021)</p> <p>A subsistence entrepreneur is a person running an independent business on a small scale to generate an income (Nieman &amp; Nieuwenhuizen 2021). This type of entrepreneur is often inexperienced and requires support and skills to run the business more effectively (Nieman &amp; Nieuwenhuizen 2021). Fitting examples would be people who have stalls on street corners selling chips, cool drinks, cigarettes, airtime or clothing (Nieman &amp; Nieuwenhuizen 2021)</p>	Inexperienced in business management and still need general support and training in technical and management skills
<b>Micro-entrepreneurs</b>	<p>Micro-entrepreneurs operate in a formal sector under a license from a local authority, and a fixed workshop (Nieman &amp; Nieuwenhuizen 2021)</p> <p>This formal sector entrepreneur operates with between zero and nine employees (Nieman &amp; Nieuwenhuizen 2021) or zero to ten employees. This type of entrepreneur has difficulty obtaining a loan from the bank. This is a formal-sector entrepreneur with no employees or up to ten employees (Nieman &amp; Nieuwenhuizen 2021). An example is someone who runs a home-based business (Nieman &amp; Nieuwenhuizen 2021). Examples include mechanics, someone who makes furniture from their home or someone who runs a guesthouse from her home. A home-based mechanic is a typical example of this type of entrepreneur (Nieuwenhuizen 2019; Nieman &amp; Nieuwenhuizen 2021)</p>	Difficulty in obtaining a loan from a bank; assistance projects focus on credit rather than training and technical assistance

Table 5.1 continues on the next page→

**TABLE 5.1 (Continues...):** Trajectory from survivalist to small-scale entrepreneurs and contribution to the informal sector.

Entrepreneur level of entrepreneurial sophistication	Feature(s)	Entrepreneurial activities
<b>Small-scale entrepreneurs</b>	This refers to someone operating as an entrepreneur in a formal sector and employing between 11 and 49 employees (Nieuwenhuizen 2019; Nieman & Nieuwenhuizen 2021). An example of a small-scale entrepreneur would be someone running a takeaway restaurant from a permanent location. In a service setting, this would be someone who operates a small accounting firm or legal practice (Nieman & Nieuwenhuizen 2021). Most of these entrepreneurs qualify for bank loans because they can provide collateral security to the bank (Nieman & Nieuwenhuizen 2021). A typical example of this type of entrepreneur would be someone who runs a bookkeeping entity (Nieman & Nieuwenhuizen 2021)	Qualifies for a loan from a bank, well-educated; has adequate collateral to apply for a loan

Source: Author's own work.

Most ventures belong to the microenvironment, which is the heart of any business (De Beer 2021). According to De Beer (2021), the microenvironment encompasses the factors and variables that exist internally within a business and are influenced directly or indirectly by management decisions. Internal factors, as noted by De Beer (2021), play a fundamental role in determining the extent to which a business can utilise opportunities and minimise threats in the external environment.

In terms of sectors, most youth enterprises fall under the tertiary sector. According to De Beer (2021) and Nieuwenhuizen (2019), businesses operate in the primary sector, the secondary sector and the tertiary sector because the activities occurring in the establishment determine the operation sector. The primary sector is responsible for the exploitation of natural resources in their raw, unprocessed form. In the secondary sector, the exploited natural resources are processed and transformed into products demanded by customers. The tertiary sector is responsible for distributing the final product from the manufacturer to the customer (De Beer 2021; Nieuwenhuizen 2019).

Regarding resource requirements, most entrepreneurs will confirm that starting and managing a business is a challenge and sometimes very lonely (Van Aardt 2017). Therefore, when starting a business venture, the prospective entrepreneur must consider in advance what type of ownership to choose (Van Aardt & Massyn 2017). Several options regarding the structure of businesses are available as suggested by several authors (Cant 2018; Nieuwenhuizen 2019; Van Aardt & Clarence 2017). Examples are sole proprietorship, partnership, co-operatives and companies. Each one of these forms or types of ownership has its own legal implications, and business owners should consider these implications when choosing an appropriate option for their business. Each structure has specific characteristics and must meet certain criteria (Radipere 2014).

## ■ **The contribution of survivalist microenterprises to informal employment creation**

Measuring informal economic activity is difficult because informality is debated, and the activity is hard to detect. Informal activities' impact on South Africa's economy is hard to measure. However, it is generally accepted that undeclared income is as vital to the South African economy as declared income. The informal sector's business culture may help solve South Africa's economic issues. Practitioners have effectively used informal entrepreneurial activities to trade and improve their marketing and entrepreneurial skills.

## ■ **Informal employment outside of the informal sector**

Research and data on the size of the South African informal economy can be broken into roughly three different phases. Firstly, the early post-apartheid studies suggest a sharp increase in informal employment following the relaxation of apartheid-era controls on movement and economic activities. Using Statistics South Africa (Stats SA) (2000), it was found that the size of the informal economy roughly doubled between 1995 and 2000. However, these authors note that at least part of this increase was because of improvements in data collection. Additionally, data from Stats SA (2000) reflecting on the same period show a feminisation of the labour force, attributing this trend in part to the growing concentration of women in low-paid and informal employment.

Secondly, Stats SA (2000) introduced the bi-annual labour force survey (LFS), leading to further improvements in measuring the informal economy. The estimates generated for the 2001–2004 period showed that, because of improvements in labour legislation, the share of informal employment in total employment had contracted. Wills (2009), assessing the 2005–2007 period, found that the share of informal employment in total employment stabilised, with about 4 million informal workers accounting for between 30% and 34% of employment in 2005 and 2007, respectively. Both analyses revealed that while there were roughly equal numbers of women and men in informal employment, a larger share of women's employment was informal. Furthermore, both studies found that women had significantly lower earnings than men.

Thirdly, in 2008, coinciding with a growing consensus on the adoption of International Classification of Status in Employment (ICLS) definitions, Stats SA introduced the Quarterly Labour Force Survey (QLFS). Bugwandin and Bayat (2022), using 2010 (Q2) data, found that roughly a third of the South African workforce was informal. They reported that the share of

women's employment (39%) in the informal economy was higher than men's (29%), with about 30% of both women's and men's work being informal. This can be attributed, in part, to a growing share of men in informal sector employment from 2010 onwards. Notwithstanding these gendered shifts, there remains considerable gender inequality within the informal economy, with women being over-represented in the lowest-earning types of informal employment and also experiencing an earnings gap within informal occupations.

Informal employment is also characterised by significantly lower levels of education compared with formal employment. Informal workers are more likely to have had no schooling and are less likely than formal workers to have completed secondary school and to have attained any level of tertiary education. Not surprisingly, earnings are far lower in the informal economy with informal-sector earnings accounting for less than half of mean and median earnings in the formal sector. It has emerged from the literature review that although survivalist enterprises are important for promoting informal employment creation, they are facing several challenges impeding their sustainability. The 'Methodology' section presents the research methodology that was followed to investigate the sustainability of survivalist microenterprises' role in informal employment creation.

## ■ Methodology

Research encompasses the processes of inquiry, investigation, examination and sometimes experimentation (Allemang, Sitter & Dimitropoulos 2022). The process is systematic (Leedy & Ormrod 2021) and scientific using a standard sequence of steps (Maree 2022) that must be carried out diligently, critically, objectively and logically (Bougie & Sekaran 2020). These steps are not necessarily linear or unidirectional; they involve a cyclical, exactly, helical (Leedy & Ormrod 2021), recursive and interactional process (Delpont & Fouché 2018). This study used a convergent mixed-method design. This design allows for the use of both quantitative and qualitative methods in a single study, thus ensuring that the weaknesses of another methodology are strengthened by the others. In this study, a semi-structured questionnaire and in-depth interviews were used to collect data.

## ■ Research paradigm

A research paradigm is a theoretical framework comprising a set of beliefs and values that guide how research is conducted and knowledge conceptualised within scientific communities (Allemang et al. 2022). According to Bertram and Christensen (2021), a research paradigm represents a particular worldview that defines for the researchers who hold

this view, what is acceptable to research and how this should be done. Research paradigms are a set of presuppositions or beliefs that are concerned with fundamental aspects of reality that give rise to a worldview (Maree 2022). This implies that paradigms serve as the lens or organising principles by which reality is interpreted (Nieuwenhuis & Smit 2022). The paradigm that informed this study was pragmatism. This paradigm does not emphasise a lot of philosophical assumptions but what works. It makes researchers prefer methodological flexibility instead of indoctrinating assumptions and philosophies. Practical choices are given priority when considering the methodology or analytical tools and this grants flexibility in the use of either qualitative or quantitative research.

The researchers used positivism to carry out deductive research, putting forward theories they could test by means of a fixed, predetermined research design and objective measures (Bryman & Bell 2018).

## ■ Population and sampling

Several authors (Bertram & Christiansen 2021; Bougie & Sekaran 2020; Casteel & Bridier 2021; Leedy & Ormrod 2021; Nayak & Singh 2021; Nwaigwe 2022; Rafeedali 2020; Rudansky-Kloppers 2021) define a population as a group of elements or cases – whether individuals, objects or events – that possess the characteristics the researcher aims to investigate and conform to specific criteria. It is used to mean the total number of people, groups or organisations that could be included in a study (Bertram & Christiansen 2021). They are the individuals from whom researchers draw sampling elements and to whom they want to generalise findings (Berndt 2020)). For this research, the target population consisted of youth entrepreneurs in the Buffalo City Metropolitan Municipality. Demographically, young people are the most affected by unemployment in South Africa. According to Statistics South Africa (2023), the youth unemployment rate in the last quarter of 2023 stood at 43.3% nationally, a figure significantly higher than that of other groups. In the Eastern Cape, the Eastern Cape Economic Consultative Council reported that youth unemployment during the same period was 52.4%, which is substantially higher than the national average mentioned above (Charman et al. 2017).

As it is not easy to include all members of the population of interest in research (Morgan & Sklar, 2018), a sample will be used. A sample is a subset of the population selected because it is much smaller than the actual population; it is usually intended to be representative of the original population group (Morgan & Sklar, 2018). A sample is selected from a population of interest, known as the target population, which is the total population about which information is required. This study sampled ten youth entrepreneurs who completed questionnaires, while another ten, also from Buffalo City

Metropolitan Municipality, were interviewed. The researchers employed a purposive sampling technique to gather rich and in-depth data from the selected participants (Chandra, 2020; Quinlan et al., 2019). The youth who were selected were involved in the NARYSEC Project and were sampled based on the criterion that they had established enterprises after undergoing 2 years of training under the NARYSEC Project.

## ■ Research instrument

Noting that published literature needs to be used to construct semi-structured questionnaires and interview guides according to the required themes, the researchers reviewed relevant literature before developing the two instruments. This process afforded confidence in the findings, thus creating a sense of validity and reliability (Muzata 2022; Snyder 2019). The semi-structured questionnaire and interview guides for this study were developed accordingly. The two instruments enabled participant engagement. The questionnaire allowed respondents to answer some questions from the provided options while others were open-ended.

## ■ Findings and analysis of results

Entrepreneurship is divided into different segments, and informal entrepreneurs are survivalists. It follows then that entrepreneurs can be found at various levels of entrepreneurial sophistication based on the nature of their entrepreneurial activities (Mahadea 2014). These are basic survivalists, pre-entrepreneurs, subsistence entrepreneurs, micro-entrepreneurs and small-scale entrepreneurs (Mahadea 2014). In this section, results are presented, as shown in Figure 5.1, where respondents were asked several questions, whose responses were coded for presentation and analytical purposes from A1 to A10.

Most responses ranged from slightly agree, agree and strongly agree, which meant that respondents mostly agreed with the statements in the questionnaires:

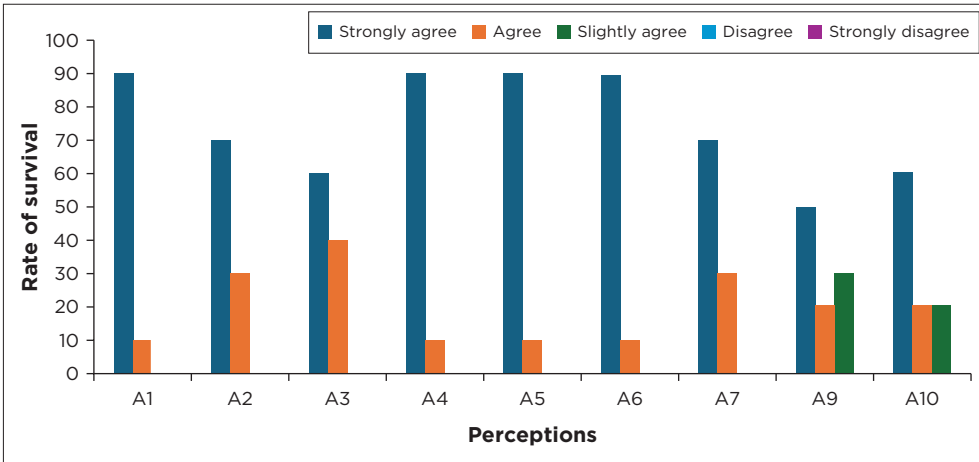
A1: Entrepreneurship is responsible for job creation.

A2: Entrepreneurship is divided into different segments.

A3: The South African government has made efforts to support entrepreneurship.

A4: Entrepreneurs face some challenges.

A5: Due to certain challenges, people have resorted to informal entrepreneurship.



Source: Author's own work.

**FIGURE 5.1:** Survivalist perceptions.

A6: For informal entrepreneurs to survive, they need to be exposed to funding opportunities.

A7: Informal entrepreneurs need corporate governance training on entrepreneurship.

A8: The government should not ignore the informal sector's sustainability issues as it contributes to the economy and the future generations.

A9: Informal entrepreneurs are in townships and cities, and the use of corporate governance towards survivalist sustainability is complex.

A10: Informal entrepreneurs are survivalist in nature and hardly implement corporate governance practices in the survivalist enterprising.

In Figure 5.1, 90% of respondents strongly agree that entrepreneurship is responsible for job creation, 70% strongly agree that entrepreneurship is divided into different segments, 60% strongly agree that the South African government has made certain efforts to support entrepreneurship, 90% strongly agree that entrepreneurs face certain challenges, 70% strongly agree that because of certain challenges people have resorted to informal entrepreneurship, 90% strongly agree that for informal entrepreneurs to survive, they need to be exposed to funding opportunities, 70% strongly agree that informal entrepreneurs need entrepreneurship corporate governance training for sustainable businesses of the future, 90% strongly agree that the government should not ignore the informal sector as it contributes to the economy, 50% strongly agree that informal entrepreneurs are in townships and cities and 60% strongly agree that informal

entrepreneurs are survivalist in nature. These results are also validated by the qualitative obtained in the study.

## ■ Role of survivalist enterprises in informal employment creation

These results are similar to those obtained from the interviews described earlier in this section. One of the study participants provided an example from his small retail business, where others in the community are now selling their goods to him for profit:

‘They bring their products, like baked products and wares, bought from other sellers and other sources, and I sell for them. Some are doing well, and even I feel content as I now know I contribute to other families’ survival.’ (Participant 04, male, 05 June 2023)

Participant 7 also mentioned that in her baking business, she was approached by other unemployed young people who now sell her products. She noted that she provides them with products on credit, allowing them to pay when they can after each sales day. Both respondents highlighted that the income generated from their businesses is gradually becoming an important factor in their communities. One small business with great potential for job creation focuses on waste clearance. The owner indicated that he initially handled the menial tasks himself, but now he can employ and pay other unemployed individuals whenever he secures a job. However, for most respondents, the available jobs are erratic, and the employment generated depends on their ability to obtain cleaning jobs:

‘I was struggling when I started, but now, every morning at my home, some young people come to check if I have any job for them. I get them and pay R100 per day. I supervise and provide technical support.’ (Participant 07, male, 05 June 2023)

Participant 5, who repairs vehicle bumpers by the roadside, has employed one person to ensure that there is ‘always someone to assist clients in case he is occupied with something else’. Both individuals are self-taught, but the owner had some basic funds to purchase the necessary equipment. These findings align with those of Mahadea (2014), who argued that such survivalist businesses create informal job opportunities, although these positions tend to be ephemeral and unreliable. In most cases, these challenges threaten the sustainability of the businesses.

## ■ Challenges faced by survivalist business

As indicated in the literature review, survivalists face many challenges, including a lack of technical skills, funds, marketing and business planning skills and networks that can assist them in growing their businesses.



Consequently, survivalists often lack sustainability. In this study, 90% of participants strongly agreed that entrepreneurs face certain challenges similar to those identified previously. A key challenge highlighted in the study was funding. Participants 5 and 7, who completed the questionnaire, as well as participants 6, 2 and 8, who were interviewed, expressed that if they had access to funding, they could have grown their businesses. They noted that they have a potential client base capable of sustaining their businesses, yet they lack the funds to procure more stock. All of these respondents were involved in buying and selling products, including fruits, sweets, catering and sewing. Participant 2 observed that:

‘Look, if only I had more money, I would increase my stock and get more money each day. I have tried to get it from my family, but they, too, have their own problems. We cannot get assistance at all; we are by ourselves here. We try to do stokvels, but that money goes towards other daily expenses. Perhaps the government must assist.’ (Participant 02, female, 05 June 2023)

The respondent highlights the funding challenges faced by those surveyed, along with their plea for access to funding opportunities. This aligns with the 90% of participants who strongly agree that the government should not overlook the informal sector, given its contribution to the economy. Additionally, 85% of respondents expressed the need for training to help grow their enterprises. They specifically identified training in basic marketing, accounting, business planning and other skills-based opportunities as essential. For instance, Participant 7 commented on the importance of business-related training, stating:

‘I have never been trained on how to increase my sales. I have tried to also use Facebook but I am not good at all. I think If I can be trained, I will sell many cakes per week. My other challenge is what markup I must put and how I can record my sales to know how much my profit is. It is a big challenge. I wish I had training opportunities. Another problem is that I always have hope that I will get the job I want to be like others, and this prevents me from looking for further training.’ (Participant 07, male, 03 June 2023)

All the respondents in technical enterprises, such as vehicle maintenance, expressed concern about the lack of training opportunities. They believed that with proper training in both business aspects and skills, they could offer higher quality services.

These findings indicate a consensus among respondents regarding the role of informal entrepreneurs and what is necessary for their sustainability. Entrepreneurship is essential for job creation. Research shows that the majority of SMMEs in South Africa are microenterprises, including survivalist operations (Bvuma & Marnewick, 2020). However, for informal entrepreneurship to contribute significantly to job creation, it must be sustainable. Entrepreneurs need to adhere to principles of corporate governance to ensure the long-term viability of informal enterprises.

This adherence will foster closer monitoring and accountability, which is currently lacking.

The South African government has made efforts to support entrepreneurship, particularly in the SMME sector (Ndayizigamiye & Khoase 2018). This sector is expected to create a significant number of jobs over the next decade. However, SMMEs face high failure rates for various reasons, including a lack of support structures, low levels of research and development, limited access to markets, onerous labour laws, poor infrastructure and government bureaucracy. Notably, the lack of access to finance, training and experience has been identified as key factors contributing to SMME failure (Ayandibu & Vezi-Magigaba 2021; Kanayo et al. 2021). To help SMMEs realise their growth potential, governments can provide financial support and training programmes (Botha 2021).

Stefan, Schirmer and Visser (2021) report that the South African government has established institutions mandated to promote and support SMMEs. The Department of Small Business Development (DSBD) was established in 2014 and mandated to specifically create a conducive and favourable environment for SMMEs to thrive while supporting the National Development Plan goals towards the creation of 90% of jobs by SMMEs (Kanayo et al. 2021). Additionally, the mandate of the Department of Trade and Industry (DTI) was broadened by an *Act of Parliament* to support SMMEs through its commercial and industrial support mechanisms. Furthermore, the DTI works to promote the growth of SMMEs in cooperation with institutions such as the National Youth Development Agency (NYDA), the Small Enterprise Development Agency (SEDA), the National Empowerment Fund (NEF) and the Small Enterprise Finance Agency (SEFA). More significantly, the DTI's strategic direction focuses on the development of policies and strategies that promote enterprise growth, empowerment and equity through initiatives such as the Broad-Based Black Economic Empowerment (B-BBEE), the Isivande Women's Fund and the SEDA Technology Programme (STP). The NEF, one of the agencies under the DTI, seeks to promote small businesses through financial and non-financial support for start-ups, expansion and equity acquisition (Masha 2020). The establishment of the multi-agencies and programmes by the South African government indicates its commitment to promoting the growth and survival of SMMEs. There is a need for effective institutional support services that enhance the survival and growth rates of SMMEs and their capacity towards the reduction of unemployment and poverty (Busenitz 1999; Nkwinika 2018). It is evident that despite their critical importance to informal employment their sustainability remains a challenge. Although the government has made certain efforts to boost entrepreneurship, much still needs to be done to ensure that the sustainability of the informal sector is given priority (Masha 2020). As a contribution to addressing the

observed challenges, this study explored whether the sustainability of survivalist microenterprises in creating informal employment can be strengthened through improved corporate governance practices (Chimucheka, Chinyamurindi & Dodd 2019).

## ■ Measures for enhancing the sustainability of survivalist microenterprises

Entrepreneurs face several challenges. In South Africa, an unacceptably high number of small and microenterprises fail within the first few years of operation (Botha 2019). These businesses encounter numerous obstacles (Botha 2019; Wiid & Cant 2021). Among the various classifications of barriers, it is essential to identify one that effectively categorises the diverse challenges according to their sources, as this provides a clear overview of the issues for which countermeasures can be developed. As a starting point, it is important to determine whether the sustainability of survivalist microenterprises' role in creating informal employment can be strengthened through improved corporate governance practices.

Good corporate governance positively impacts the sustainability of businesses, regardless of their size, whether they are large corporations or survivalist enterprises (Alkhuzaie et al., 2023). This influence extends to management's decision-making and the overall control of the business. Therefore, all businesses, whether small or large, must be guided by sound governance practices, underpinned by principles of good governance such as transparency, integrity, fairness and leadership. In this study, all respondents acknowledged the necessity for their businesses to adhere to these principles, although they often do so unknowingly. Participant 6 succinctly expressed this observation when he stated that:

'We are not trained in how to manage our businesses. I do some of the things naturally. I know not being honest with those I work with, be they customers or some of the workers, is not good for my business. It is something that I must do. But I wish I knew these things. They should be taught at school since many of us are now selling something to survive on our streets.' (Participant 06, female, 03 June 2023)

The aforementioned statement indicates that additional studies are needed to gain insights into how survivalist businesses can better understand the positive impact of corporate governance on their operations and sustainability.

## ■ Conclusion

Several factors, including environmental contexts and related aspects, significantly influence the extent to which corporate governance contributes

to the sustainability of survivalist microenterprises and their role in creating informal employment, ultimately affecting their survival or demise. Despite these important characteristics, survivalist SMMEs experience rapid growth in some countries while remaining stagnant in others. As a result of the aforementioned factors, many people turn to the informal sector, which is easier to navigate, unregulated and more affordable. Research indicates that most SMMEs in South Africa are microenterprises, including survivalists, which have little potential for growth and are therefore less likely to hire employees. Survivalist enterprises are typically characterised by unemployed individuals focused on providing the minimum means to sustain themselves and their families, with minimal capital investment. The significance of entrepreneurial pursuits in emerging economies like South Africa has been highlighted by several authors. Globally, the importance of the SMME sector is well recognised, with such enterprises often described as the heartbeat, backbone or building blocks of an economy and widely accepted as critical drivers of economic growth and job creation.

## ■ Recommendations

This study investigated the contribution of survivalist microeconomic and informal businesses to the informal sector. It concludes that survivalists play a significant role in informal-sector employment. The study emphasises the need to address the barriers facing the informal sector. Many entrepreneurs in start-up ventures lack the skills, knowledge and experience necessary for ensuring the survival and growth of their businesses. Mentorship support is crucial for promoting the sustainability of small businesses. Therefore, the provision of start-up funding should be accompanied by ongoing mentorship, training and access to adequate support services. South Africa should create a national mentorship index, managed by competent and experienced individuals with a proven track record in small business support and development.



# **Part 3**

## **Performance and sustainability of entrepreneurship**



# Addressing sustainability challenges facing small and medium-sized tourism enterprises in Amathole district through embedding corporate governance<sup>1</sup>

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## ■ Abstract

The study attempts to identify the sustainability challenges facing small and medium-sized tourism enterprises (SMTEs) and examine how the

1. This chapter represents a substantial (more than 50%) reworking of Nguza-Mduba, B, 2020, 'Intuitive competitive intelligence: the entrepreneurial path to success for small and medium enterprises (SMEs) in the tourism sector in the Eastern Cape Province', PhD thesis submitted in fulfilment of the requirement for the degree of Doctor of Business Administration, Graduate School of Business and Leadership, College of Law and Management Studies, University of KwaZulu-Natal, Westville Campus in Durban, with supervisor Prof. Emmanuel Mutambara and co-supervisor Prof. Fortune Ganda, viewed 13 September 2024 at <https://researchspace.ukzn.ac.za/server/api/core/bitstreams/09faf530-0bc7-417b-8ac2-f02f8a6a2c37/content>

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implementation of corporate governance practices can enhance their performance, at Amathole District Municipality in the Eastern Cape province. It is a common major problem that SMTEs are easy to establish but often fail within a period of less than 4 to 5 years after they have been established. The failure is disturbing; it happens even though SMTEs are essential for providing job opportunities to the local communities; therefore, the demise of such business enterprises creates an inconvenience in society. The objectives of the study were to identify and address the challenges faced by SMTEs through embedding corporate governance practices. Data were solicited from 27 tourism-related businesses that offer accommodation at Amathole District Municipality, using the purposeful sampling technique. The research instruments used were semi-structured interviews. A qualitative research approach was employed in which data were analysed using inductive and thematic analysis procedures. The study found that SMTEs created jobs for the local communities and contributed to the protection of tourist resources (both natural and man-made). Small and medium-sized tourism enterprises were also found to experience several challenges such as a lack of resources, temporary seasonal employment, fierce competition, some municipalities supplying SMTEs with substandard goods and services, as well as cultural differences between employees and tourists hindering effective communication and engagement. The integration of corporate governance to reinforce the sustainability of SMTEs was proposed to address internal and external challenges faced by these entities. It was concluded that obstacles hindering the sustainability of SMTEs can be addressed through the adoption of corporate governance practices. The adoption of corporate governance is recommended to strengthen the sustainability of SMTEs.

## ■ Introduction

In the Amathole District Municipality of the Eastern Cape province (ECP), small and medium-sized tourism enterprises (SMTEs) encounter challenges that hinder their sustainability. Therefore, there is a need to investigate how implementing corporate governance practices can boost the performance of these businesses. This chapter aims to identify challenges affecting SMTEs. The SMTEs have a substantial impact on the South African economy as they create job opportunities for the local communities, which in turn improves their standards of living and promotes economic growth (Amoah, Amoah & Campus 2019; Mxunyelwa & Vallabh 2017; Vallabh 2017). Small and medium-sized tourism enterprises are easier to establish because

homeowners customarily convert their houses into accommodation facilities for tourists. Small and medium-sized tourism enterprises are crucial in South Africa as they provide several benefits such as the ability to create jobs, generate more revenue, attract international investment and alleviate the nation's socio-economic problems (Dinu 2018; Modgil et al. 2022). Considering that SMTEs are essential to the country's economic growth, it is necessary to conduct this study because it focuses on strengthening their sustainability.

This study assumes that the implementation of corporate governance practices enhances the sustainability of the SMTEs. Corporate governance practices involve the way businesses and corporations are operated by their boards of directors to improve productivity and efficiency in operations and guarantee that the stakeholders follow the proper procedures when making important decisions (Atlegang 2021; Flowers et al. 2013; Okaro, Ofoegbu & Okafor 2018). The lack of corporate governance practices in business entities is detrimental to a company's ability to succeed; hence, it must be reviewed and corrected (Manuere 2018). Entrepreneurship sustainability is measured in terms of the competencies of a business to sustain its various operations such as the attraction of markets, consumer pricing, financial management, competitiveness, and exercising management functions of planning and organising the resources. It also includes effective leadership whereby the business owners or managers exercise sound and efficient control of the business for its long-term survival. It can be inferred that if these competencies are not put in place by the owners or managers, the small business enterprises are likely to fail and close business thereby failing to become sustainable. This inevitably reinforces the perspective that the adoption of corporate governance ensures the sustainability of the firm.

Corporate governance gained popularity in South Africa through the establishment of the King 1 Report which was published in 1994. According to Sarah (2017), King (1994) provided guidelines on how the business should conduct its operations through effective leadership to obtain good business management practices, human resources management and developing good relations with trading partners. While small, micro and medium-sized businesses are not compelled to adopt corporate governance procedures, applying them has been found to have several advantages that improve their sustainability. Implementation of corporate governance assists SMTEs in improving the strategic vision and objective of the company while enhancing internal controls (Mukherjee & Sen 2019). Additionally, observing good corporate governance principles such as demonstrating accountability and transparency enables the company to attract financial investors to invest in the company (Rubio-Andrés et al. 2020). Dicey (2016)

and Hove-Sibanda et al. (2017) explain that the board of directors takes the responsibility of directing the implementation of strategies to enhance accountability and transparency. These are some of the benefits that SMTEs could derive from integrating corporate governance principles into their small business practices. Okaro et al. (2018) conducted a study in Nigeria aimed at determining the relationship between corporate governance practices and sustainability. The research results indicated the existence of a relationship between corporate governance practices and sustainability.

Considering all the matters discussed in this section, this study explores the challenges faced by SMTEs in the ECP. It further discusses the risks incurred in the tourism industry including environmental, natural disasters and man-made challenges as well as illegal practices. The situational analysis of the ECP is focused on the tourism strengths, weaknesses, opportunities and threats (SWOT) approach together with those specified by the National Tourism Sector Strategy (NTSS), and the physical proximity is discussed. The pivotal role played by the Local Economic Development (LED) officials inclusive of all relevant government departments was identified. In addition, the research results and discussions are highlighted. The chapter concludes with a summary and references.

## ■ Context of the study

A previous survey conducted by the South African Competition Commission (SACC) in 2004 found that 99.3% of South African businesses are small and medium enterprises (SMEs) and they contributed 53.9% of all employment and 34.8% of the country's gross domestic product (GDP) (Mahlangu 2018). Small and medium-sized tourism enterprises are anticipated to have a substantial impact on the nation's economic growth (Erkin & Shakhrizoda 2022; Fong, Law & Ye 2020; Groot et al. 2019; Mandić, Mrnjavac & Kordić 2018). The tourism industry has the potential to encourage regional development and economic progress because it offers local communities employment possibilities (Dinu 2018). The sustainability of SMTEs is chosen because they can contribute to the regional development of the province.

Because of its size and high poverty levels compared to the other nine provinces in South Africa, the ECP was selected as the focus of this study. More importantly, it has a high unemployment rate and is underdeveloped. Approximately 6.6% of South Africa's tourist market is made up of the ECP's tourism sector. It is estimated that 367,557 out of a total of 9,933,966 foreign tourists that arrived at South Africa's shores in 2009 visited the ECP, making up 3.7% of all travellers outside our borders. (Tourism 2009 as cited by Mxunyelwa & Tshetu 2018). This discussion leads to the statement of the problem as outlined in the 'Statement of the research problem' section.

## ■ Statement of the research problem

The SMTE industry helps South Africa's economy by creating employment for locals instead of minimising the migration to urban and regional areas. According to Statistics South Africa (2022), the country's unemployment rate is estimated to be 37%, which is extremely very high. Additionally, in the year 2015, approximately 30.4 million South Africans were reported to be living in poverty. This indicates that there is a high poverty rate which necessitates the need to promote sustainable development of SMTEs. Furthermore, according to Statistics South Africa (2017), there is a significant prevalence of high-income inequality. The stated rampant social and economic challenges underscore the critical importance of promoting the growth of SMTEs to support economic development in the South African economy. Consequently, this study explores the sustainability of SMTEs and how corporate governance practices can enhance their performance in Amathole District Municipality, ECP. The industry is dominated by small and medium-sized tourism businesses with each enterprise experiencing unique sustainability obstacles often impeding the integration of corporate governance standards within their operations. As a result, the distinctive characteristics of SMTEs influence their long-term growth and survival. Compounding the vulnerability are several challenges that impede the long-term growth and sustainability of SMTEs.

The main challenge that remains unresolved is that despite the critical importance of SMTEs in the economy, there are several obstacles that impede their growth and sustainable development. Studies have found evidence that some South African financial institutions refuse to give loans to SMTEs for various reasons (Ahmad 2015; Shafi, Liu & Ren 2020; Stentoft et al. 2021; Kahveci 2022). Therefore, SMTEs lack financial stability as they rely on their owners, friends and family members for finances. Small and medium-sized tourism enterprises do not have well-structured accommodation facilities that are properly maintained. In addition, they are located far from the central business division because of expensive rental costs, and subsequently, this affects their access (Bhorat et al. 2018).

A lack of research skills hinders the capacity of SMTEs to generate business ideas and the innovation to produce new products (SEFA 2017). Small and medium-sized tourism enterprises lack the resources needed to hire highly skilled labour (Bhorat et al. 2018). Sibanda (2015) observed that South African labour laws restrict the retrenching of employees when the company is no longer in need of them because of poor performance and not being able to yield turnover and profits. This implies that unemployment caused by changes in small, medium and microenterprises' (SMMEs) business and economic activity, particularly in the tourism industry, is prevented by South African labour laws. The growth of SMTEs

in the country is also hampered by bureaucratic requirements such as permit and licence delays, and red tape linked with starting and managing a business enterprise (Global Entrepreneurship Monitor [GEM] 2014; World Economic Forum [WEF] 2014). The growth of small businesses is also affected by the high crime rate and loss of opportunities to enter the markets because of a lack of relevant skills (Cassim, Soni & Karodia 2014; Donga, Ngirand & Shumba et al. 2016). There is limited application of corporate governance practices to improve performance and sustainability (Ahmad 2015). This indicates that one of the primary problems is that, despite the numerous difficulties SMTEs experience, there is barely any form of corporate governance practised within their business operations. This study assumes that the adoption of corporate governance practices in SMTEs will promote their profitability, growth and ultimately sustainability. Therefore, the objective of this study is to examine the challenges faced by SMTEs and explore how the implementation of corporate governance practices could improve and address their sustainability challenges.

## ■ Significance of the study

Small and medium-sized businesses in the tourism sector play a significant role in economic development by creating employment opportunities; therefore, they have the potential to raise the standard of living in the Eastern Cape regions. The province has been categorised by various sources as being rural and underdeveloped compared to other provinces, because it consists of several households that are living below the poverty datum lines, poorly educated people, a high unemployment rate and ill-equipped infrastructure (Sarah 2017; Sibanda 2015; Small Enterprise Development Agency [SEDA] 2016, 2020). This suggests that the adoption of corporate governance principles to address the sustainability challenges facing SMTEs has critical implications for the social and economic development of the province. Supposedly, the sustainability of SMTEs has several benefits to the broader society in terms of contribution to poverty alleviation through improved growth of small businesses in the local communities, thereby increasing wealth. Therefore, this study is significant given its potential to investigate corporate governance as an alternative to promote improved sustainability of SMTEs. Findings from such a study may provide insights that are likely to influence how government support policies for SMTEs are developed and implemented. In addition, they may contribute an understanding that encourages and strengthens the spirit of entrepreneurship for starting small businesses in the tourism industry. Overall, it may contribute to the existing body of knowledge of sustainability of SMTEs which could be of use to both public and small business entities fraternity.

## ■ **Small and medium-sized tourism enterprises in the Eastern Cape province**

Small and medium-sized tourism enterprises in ECP are facing several challenges that are impeding their profitability, growth and, subsequently, their sustainability, partly because of a lack of corporate governance in their operational business practices. This section will further delve into exploring the classifications, functions and types of SMTEs present in the province with the view of understanding obstacles that are hampering their sustained survival.

## ■ **An insight into the state of small and medium-sized tourism enterprises in the Eastern Cape province**

Hove-Sibanda (2017) and Manuere (2018) identified numerous functions of SMTEs, which include the following: SMTEs rely on human resources as their businesses cannot operate without them, unlike big businesses that can also utilise technology for their operations. This is supported by Ceptureanu (2015) who explained that small enterprises provide more employment per unit of capital. Small and medium-sized tourism enterprises tend to prosper while simultaneously competing within the business environment. Chimucheka (2013) mentions that SMTEs provide services to a minimal rural segment of the market that larger businesses are not interested in serving.

In the ECP, Tripadvisor (2018), as cited by Nguza-Mduba (2021), identifies various types and classifications of SMTEs, including bed and breakfasts (B&Bs), guest houses, lodges, hotels, backpackers, farm stays, holiday and wildlife resorts, holiday homes, caravans, self-catering accommodations, hostels and wild camping. The province also has both private and provincial reserves. It was observed that there are also many available adventurous and outdoor activities like hiking routes, nature and wildlife reserves, cultural experiences and family-friendly attractions. In addition, other diverse ranges of exciting activities are provided by the province for tourists to partake in, including skydiving in Frontier Country, bungee jumping from the tallest commercial bungee bridge and surfing Jeffrey's Bay's biggest right-hand surf break. Evidently, there are many activities that may attract tourists to the province, thus it is important to discuss the SMTEs' contribution to the Eastern Cape.

## □ **Contributions of the small and medium-sized tourism enterprises in the Eastern Cape**

Small and medium-sized tourism enterprises have played a noteworthy role in the economy. The SMTEs give local communities employment when

big businesses lay off workers (retrench employees) because of restructuring. The absorption of employees by SMTEs contributes to a significant decrease in unemployment in the ECP and the country as a whole. The tourism business is one of the crucial sectors for generating economic growth, income and wealth creation (Bongomin et al. 2018). Tourism-related activities can be used in emerging economies to advance social advancement, eradicate poverty and crime, and achieve long-term economic prosperity (Hove-Sibanda 2017; Bongomin et al. 2018). Small business enterprises provide goods and services to local communities in the rural areas where they are established (Chimucheka & Mandipaka 2015; Manuere 2018). Globally, developing nations are faced with higher rates of poverty than developed ones. In this regard, the South African government has begun to recognise the important role played by SMTEs in eradicating poverty.

In terms of growth and economic development, SMTEs generate low-income groups employment, which promotes the economic and social well-being of the nation. Small and medium-sized tourism enterprises provide young people with training and apprenticeship opportunities. According to Chimucheka (2013), SMTEs alone contributed to more than 35% of the nation's GDP in 2009. This indicates the significant contribution to economic growth and possible improved development that SMTEs can make. The World Business Council for Sustainable Development (2004) cited in Chimucheka (2013) elucidated that sustainable development may help with community development, employment, economic growth and crime reduction by enhancing the performance of SMTEs. These findings might be useful for South Africa to consider the role of SMTEs in addressing the present increasing unemployment that is arising from the layoffs and restructuring across numerous businesses and sectors. Given the significant contribution of SMTEs to economic development, it is important to investigate the hindrances contributing to their failure with the aim of finding corporate governance as an alternative way to stimulate and sustain their growth.

## ■ Challenges faced by the small and medium-sized tourism enterprises in the Eastern Cape province

According to the Annual Review Report of Sustainability of Small Business in South Africa (2008), 1.5% of businesses established from 01 April 2005 to 31 March 2006 survived for 1.5 years (18 months) to 2.5 years (30 months). This indicates that there is a high failure of many SMTEs in South Africa that operate in various segments of the economy such as tourism, farming, service, wholesale and retail, mining, production and manufacturing, and various construction segments. Both Chimucheka and Mandipaka (2015)



and Bushe (2019) concur that 70%–80% of SMTEs fail within 3 years of their establishment, particularly in South Africa, because of numerous difficulties and a lack of support from important stakeholders like government agencies and private sector organisations. This suggests that SMTEs are renowned for failing to achieve long-term success. It can be concluded that although SMTEs contribute to the socio-economic status of the country, they are less sustainable because of among other factors, a lack of the application of corporate governance practices in their systems. A lack of business management skills is another factor that hinders them from operating their businesses successfully. Their importance and susceptibility have drawn a lot of research (Bruwer & Coetzee 2016; Cant & Rabie 2018).

### ■ **Lack of general management skills and competences**

Bruwer and Coetzee (2016) found that SMTEs lack sustainability because of various reasons, such as insufficient start-up capital, a lack of skill to make intuitive decisions informed by the competitive external business environment, high employee turnover, the seasonal nature of the industry, a lack of bookkeeping and financial management skills, and a lack of internal control systems. A lack of strategic planning and a lack of corporate governance knowledge also hinder the survival of SMTEs (Bushe 2019; Dicey 2016). This implies that the sustainability of SMTEs is still a challenge in sectors such as catering and accommodation, real estate, financing, insurance, business services, wholesale and retail business. A sizable number of the newest businesses have been in liquidation (Botha et al. 2020; Department of Trade and Industry 2008; Mutiyenyoka & Madzivandila 2014). This evidence indicates that South African SMTEs experience difficulties that limit their growth and sustainability similar to those in other nations. This leads one to conclude that SMTEs continue to face difficulties despite the help and attention they have received from the appropriate government agencies.

### ■ **Lack of access to finance**

Nieuwenhuizen (2019) explains other various challenges that SMTEs face, such as the lack of education and training in entrepreneurship development, a lack of support structures, the lack of financial resources, inaccessible markets, inadequate technology and limited access to human resources. The notion of failure of small business entities because of inadequate education and training is also acknowledged by Cant and Wild (2013) as well as GEM (2018). Small Enterprise Development Agency (2016) asserts that limited financial resources are a major obstacle hindering the sustainability of SMTEs. Small Enterprise Development Agency (2016)



explained that small businesses, in turn, lack start-ups because financial organisations, such as banks and other financial lenders require collateral security as the basis for granting credit. Small and medium-sized tourism enterprises sometimes do not have assets and means to use as collateral, hence financial institutions decline to offer them credit.

According to Finmark Trust (2016), the findings in Finscope's Small Business Survey show that SMMEs in other provinces such as the Northwest and Gauteng provinces are more likely to have access to credit and financing as opposed to those in rural provinces like Mpumalanga, the Northern Cape and the ECP. Access to resources brings advantages to the development of SMTEs in certain provinces. Other difficulties affecting small businesses' sustainability, among others, include their inability to write persuasive business plans to convince financial institutions to lend them start-up capital, their low profitability, and their lack of expertise in conducting market research and gaining access to markets (Chingunta 2017; GEM 2014). There is evidence that indicates that local financial institutions are reluctant to lend money and extend credit to SMEs because of the conservative culture within the finance industry in the country (GEM 2014). Most importantly, many SMMEs in the country are situated in rural areas devoid of adequate physical infrastructure (buildings, road networks and communication) (Bhorat et al. 2018).

## ■ Inability to enter certain markets

The inability to enter certain markets is another difficulty for SMMEs. They should acquire the knowledge and abilities that will provide them with a competitive edge by continuously scanning their environment for signs of potential and existing competitors. The scanning of the market environment will help them maintain sustainability while improving their performance (Cass & Sok 2014; Garg & De 2014).

Some SMTEs have not received adequate government support because they are not informed about organisations that help. Perhaps because the ECP is predominantly impoverished and rural, many small businesses may not necessarily have useful information that can help them improve their business operations (Alkahtani, Nordin & Kan 2020; Bureau for Economic Research 2016; Ingle 2014; Khoase & Govender 2013). However, in Canada, support for small businesses through corporate governance initiatives aimed at ensuring profitability and sustainability is continuously provided (Calof 2017).

## ■ Inadequate use of information technologies

Another concern affecting the operations of SMTEs is that they are not technologically savvy enough to use the latest platforms for operations and survival. Nowadays, we live in a technological world; therefore, any

business ought to invest in technological space. Using technology is expensive because it involves acquiring computer hardware and software which requires updating from time to time (Ghobakhloo & Tang 2015; Sifolo 2017). This implies that SMTEs that have financial constraints are likely to have limited capabilities to procure information technology (IT) devices. Information and communication technology (ICT) is another type of technology that a business can utilise to communicate with key stakeholders through market environment research about its competitors, customers and suppliers to make informed decisions. Consequently, incorporating corporate governance principles that promote sustainable business operations such as adopting ICT is important as it enhances competitiveness (Asghari et al. 2019; Bi & Cochram 2014; Silva et al. 2019).

A big challenge in corporate governance of SMTEs exists in infrastructure that consists of inadequacies in telecommunications, utilities and transportation, energy, affordable office space, and legal, commercial and/or accounting services as impediments to the sustainability of SMTEs (Chimucheka 2013; Finmark Trust 2016). However, in the ECP, SMTEs lack fundamental technical computer operating abilities and have limited infrastructure, suggesting the need for such training and government support. Once more, their access to human resources is constrained by a lack of job security, sustainability and the seasonal nature of the industry. Small businesses do not have enough money at their disposal to hire a properly skilled and competent workforce. Most SMTEs rely on the tourists who visit their facilities. On the other hand, small businesses, in general, are also hindered by an ill-equipped untrained workforce, which results in skilled labour shortages (Chandra, Paul & Chavan 2020; Fatoki 2014; GEM 2018).

## ■ Labour law and regulation restrictions

The South African labour laws affect SMTEs in their operational activities. After 1994, the newly formed South African democratic government provided rights for employees through its Constitution, including the right to protest unfair labour practices (South African Government 2018). Emanating from such rights of employees, unionised labour was established in all spheres of private and public sectors which sometimes affects the smooth functioning of business operations as well as economic growth (OECD 2015). Because of what appears to be high labour costs and increased demands, some industries, especially those in the manufacturing and tourism sectors, are less likely to employ unionised workers. This becomes a problem when small businesses are initially started and in the early phases of development (Mutenyoka & Madzivandila 2014). South African labour laws provide a significant hurdle to terminating employees' employment contracts when the business is not able to retain them or in instances when it is determined that they have become less productive

(Sibanda 2015). Because of this, changes in economic activity and the trade of SMTEs, notably in the tourism sector, mean that labour laws do not encourage unemployment brought about by the SMTEs in the country.

### ■ **Lack of small business's research skills**

Because of small businesses' lack of research expertise for creating and manufacturing relevant items using business concepts, research and development in these sectors are very low. There is no connection between small and large organisations where newly established SMTEs could obtain innovation and company growth strategies from large and successful corporations. Furthermore, it can help develop relationships between local and international businesses to facilitate exports (GEM 2014; Williams et al. 2017). However, huge companies do not desire to collaborate with smaller ones. Likewise, small businesses focus on the sustainability and performance of their companies rather than conducting research (SEFA 2017).

### ■ **Issuing of permits and licences**

Government red tape and bureaucracy, which delay the issuance of licences to prospective small firms, are additional obstacles to the expansion of small and new businesses in South Africa (Herrington & Coduras 2019; WEF 2014). This also remains true for the development of firms involved in the tourism industry as they are subject to stringent requirements for obtaining permits and licences.

Small businesses face challenges when trying to enter the tourism industry (SEDA 2012). These challenges include strong competition, the difficulty of sourcing and managing capital to purchase and upgrade equipment, high start-up costs for small businesses, the inability to access relevant and up-to-date industry data in rural areas, a small market and a small customer base (Khoase et al. 2020).

### ■ **Uncoordinated government small and medium-sized tourism enterprises support policies and services**

Small business performance is also hindered by inadequate coordination between government departments, which prevents them from cooperating effectively to support all enterprises. Because of this, some departments duplicate services instead of reducing expenses. Furthermore, that affects the application of monitoring and evaluation tools to examine and provide corrective action to local businesses that need assistance. Another challenge is that universities are not necessarily available to assist entrepreneurs in rural areas as they are busy concentrating on completing

their syllabi. However, when the important parties cooperate, this vacuum can be filled (Deltl 2013; SEDA 2020). The viability of small enterprises is also critically impacted by high crime rates, which tend to raise security expenses and put a strain on resources that they may not necessarily have (Cassim et al. 2014; Donga et al. 2016). All South Africans, whether they are doing business or not, as well as visitors, tend to be impacted by the high crime rate.

## ■ Risks incurred in the tourism industry

The tourism industry is affected by diverse forms of risk that further hinder the effective performance of SMTEs, ultimately leading them to fail and close.

### ■ Natural disasters, environmental and man-made challenges

In addition to the challenges listed earlier, the tourism industry is faced with various issues. Political unrest, natural disasters, economic crises and the exponential growth of the Internet are some of the extreme environmental changes according to Gretzel (2006), as quoted in Heath (2014). Other difficulties include both man-made and natural difficulties. Additional barriers include declining livestock production and land that keeps deteriorating owing to droughts, which causes people to move to urban areas and leave the remaining residents dependent on aid and remittances (Sifolo 2017). According to the 2016 revision of the NTSS document for South Africa, 'South Africa's natural environment is one of its greatest tourism resources'. As such, the 'tourism industry needs to be actively involved in conserving and protecting it' (Department of Tourism 2016, p. 8).

At the local, national and even international levels, there are several economic, social, political and legal forces that have a direct impact on the development of the province (Hamman & Tuinder 2012, p.38). Environmentally harmful effects are well-known and extensively documented. This chapter focuses more on the wider implications for tourist enterprises of local destinations. A study by Shaw, Saayman and Saayman (2012, p. 193) distinguishes between potential risks that are prevalent in the South African tourism business. These risks include weather, natural disasters, climate conditions and other environmental factors. Additional risks involve health hazards such as infectious diseases, crime and safety issues, political factors such as instability and war, and economic factors such as exchange rates, a lack of funding, rising prices, economic recession and financial crises, as well as transportation issues. Furthermore,

other risks include IT, reservation systems and computer programs and socio-demographic factors such as gender, age, family life and new markets (Shaw et al. 2012), as adapted from Sifolo (2017).

According to Shaw et al. (2012), market research should consider significant hazards within the South African tourism sector: (1) the development of a risk evaluation framework and (2) determining the value and impact of risks applied across different industry sectors. Although Shaw et al. (2012) focus on various risks that may challenge organisations, it is unclear whether these risks will affect the sector's optimum performance. This uncertainty may impact the government's broader agenda concerning the economic contribution of the tourism sector, as proposed in the National Development Plan (NDP). The varying flow of tourist demand, which is a frequent issue among travel enterprises, presents a challenge to the industry.

## ■ **Illegal practices affecting tourism in South Africa**

Unlawful practices, which may include a lack of government control over corruption, prostitution and illegal behaviours (crime, illegal immigration and land invasion), which remain a challenge in the nation, are other challenges facing the tourism business. Pleumarom (2012, p. 24) asserts that frequent land disputes pose some difficulties when developers use various illegal access methods to land in tourist zones for tourism-related purposes. Pleumarom (2012) adds that while tourism can occasionally reduce poverty, it can also rise swiftly in some nations. This occurs when big companies seize property for massive tourism projects, which negatively impacts small companies, forcing them to suffer and shut down. These practices, which encompass lodging, homes, golf courses, marinas, retail centres and other facilities, act as a reflection of 'hegemonic' and 'predatory' tourism policies and procedures (Sifolo 2017, p. 64).

There is limited information about the views of SMTEs on the issues affecting the tourism industry in the ECP. It is unclear from the documentation whether these companies' viewpoints on how to handle the problems described are accurate. According to Peck, Jackson and Mulvey (2018), SMTEs are impacted by the regulatory environment because they must register their firms and run them responsibly. As a result, even though it creates a hardship for their operations, these tiny enterprises must comply with the regulatory environment. The internal environment and characteristics of the tourism sector in the ECP may be better understood by looking at situational analysis and illustrating this by identifying the SWOT of the province.

## ■ **The situational analysis of the Eastern Cape**

Understanding the challenges faced by SMTEs in the ECP may contribute to possible ways to improve the tourism sector in the country. The ECP has not

performed well in terms of the travel schedule (Department of Tourism 2017; Department of Trade and Industry 2015; National Department of Tourism 2011). A SWOT analysis provides a framework to describe the internal strengths and weaknesses that affect an organisation, as well as external opportunities and threats. This strategic business management tool could potentially help diagnose the challenges facing the tourism sector in the province. As a result, it is crucial to analyse the province's situation.

## ■ **Strengths, weaknesses, opportunities and threats analysis of the Eastern Cape province based on the literature**

These situational analyses are based mainly on literature. Therefore, it does not include primary information regarding the tourism industry in the ECP. The SWOT situational analysis of the province is highlighted in this section.

Eastern Cape is endowed with natural beauty which can benefit society through the running of SMTEs. As far as strengths are concerned, ECP has a colourful history of motor manufacturing and focuses on agriculture as well as beautiful museums. The province is known for game farming and ecotourism which are steadily growing sources of revenue. It has grown to be an investor-friendly destination, attracting domestic and foreign investors with the assistance of the Industrial Development Corporation, Coega Development Corporation (CDC) and Enterprise Development Corporation (EDC). It is known to host international and domestic events such as the Grahamstown Arts Festival, Berlin November horse racing event, Buyel'ekhaya Music Festival, Hogsback Christmas in July Winter Festival (HCJWF), Ironman Triathlon Event, Hemingway's Wine Show, The Wild Coast Jikeleza Festival, SMTEs' Development Summit, Jeffery's Bay Annual largest surfing contest in Africa, and Billabong Pro. Birds Islands are located in Algoa Bay, just 62 km from Port Elizabeth. This cluster of four islands is one of the many attractions in the province. Over 10,000 African penguins and the largest gannet population in Southern Africa, with approximately 65,000 breeding Cape gannet pairs, can be found in these important seabird nesting sites. The famed Addo flightless dung beetle, along with rhinos, buffalo, lions, elephants, leopards, whales and great white sharks, can all be found in Addo National Park. The city of East London takes pride in being the only river port in South Africa.

The Amathole Mountains, also found in the ECP, rise to 1,800 m above sea level. Furthermore, the Eastern Cape tourism brand has become visible within the marketplace, positioning the province as a desirable tourism destination in farming, agriculture, eco-tourism and aqua-marine tourism. The new construction of concentrated turbines to generate electricity in the province and the N2 Wild Coast Route boasting sea views and tourist

attractions and destinations add value to the attraction of tourists to the province (Dicey 2016; Hove-Sibanda 2017; Sarah 2017).

There are weaknesses that impede the tourism development of the province which include failure to attract day trip travellers, a lack of a focused promotion strategy, limited private sector partnerships, local communities that are less involved, no tourism infrastructure in certain areas and a lack of tourism, financial and human resources. Another hindrance is the slow growth and development in comparison to other parts of South Africa as well as poor tourism product quality, limited variety, poor service delivery and failure to market the province as a tourist attraction area (Stats SA 2011, 2013). Other factors include poor matric results, migration of people to other provinces (EC Spatial Development Plan), the heavy reliance of ECP households on social grants and remittances, human immunodeficiency virus (HIV) and acquired immunodeficiency syndrome (AIDS) prevalence, high unemployment coupled with poverty, implementation of the policies and leadership (Dupeyras & MacCallum 2013).

Although the province has its weaknesses, it can turn them into marketing opportunities to promote tourism. These opportunities include a focus on research and development to enhance rural development, the potential to be a pioneer province for educational tours related to agriculture, and the development of strong collaborations among the provincial government, the private sector, universities and Technical and Vocational Education and Training (TVET) colleges. Additionally, promoting sports and adventure tourism activities will further support these initiatives. The province is connected to three others (KwaZulu-Natal, the Western Cape and Free State) as well as Lesotho, which can enhance economic growth. This highlights where marketing efforts in ECP should be concentrated to attract visitors from other provinces, as hosting business events also boosts tourism (Eastern Cape Business 2019).

The province is also affected by threats that continue to hinder economic development. The decline in agriculture which is one of the primary economic sectors affecting the tourism sector leads to poverty and people living below the threshold, coupled with slow growth and development in comparison to other South African provinces. In addition, poor infrastructure, including roads, transportation and ICT networks, hinders the attractiveness of tourism areas. Other challenges facing the SMTEs include a less qualified workforce and a lack of consistent coordination between public and private partnerships within the tourism sector. Additional issues involve poor water quality, poaching, a limited number of non-governmental organisations to support the province and a lack of communication between local communities and authorities, all of which directly affect the tourism industry in the province (Development Bank of Southern Africa [DBSA] 2014; National Department of Tourism 2014).



## ■ Situational reviews on the challenges specified in the National Tourism Sector Strategy

The 2011 NTSS specifies general challenges that hinder tourism in the country. Generally, domestic tourism has been given limited resources to pursue its strategic plans. Other constraints such as infrastructure as well as access and conversion channels and concentration on marketing were not considered. There is little research conducted on domestic tourism and it must improve. Furthermore, there is a need to align indicators, and the sharing of the research findings among the stakeholders to assist in enhancing tourism development (Abrahams 2019; Rogerson & Rogerson 2021). Some existing products, in the tourism sector, tend not to be optimally used and they must improve. There is limited implementation capacity at a local government level; however, the NTSS focuses on the improvement in applying the policies in these local areas. Furthermore, demand should be aligned with financial investments. There also needs to be differentiated marketing, together with combined packaging for improvement (Altman 2018; Kyalo, Katuse & Kiriri 2016; Pandey & Rogerson 2021).

The promotion and development of the tourism industry must be revisited and reviewed by the NTSS regarding the policies of the said sector. It should make sure that there is an improvement in cooperation and partnerships for domestic tourism. The policy should develop a package that accommodates and integrates all the affected departments in enhancing the tourism sector. Furthermore, formal travel intermediaries focused on other aspects such as providing advice and guidance as well as sufficient information, and conversion opportunities for travel planning and arrangements should be strengthened (Department of Tourism 2016, 2018).

Regulations for tourism ought to promote domestic and holiday travel so that people can experience the diverse cultures of which the nation is proud. The category of Visiting Friends and Relatives (VFR) and business travel have minimal leverage. Once more, in South Africa, there is little tourism culture and little knowledge of the accommodation options that are available at reasonable prices for those going for social events like weddings and funerals. Commonly, the country does not have a comprehensive plan for boosting domestic tourism (National Department of Tourism 2011, p. xii, 2014). To change the tourism business, the NTSS is creating policies, laws and broad-based black economic empowerment (BBBEE) in the sector. The promotion of the economy of SMMEs is identified as a significant vehicle for achieving transformation to grow the tourism industry to its full potential (Abrahams 2019; National Treasury 2019). Of course, human agency is critical to the transformation of the SMTEs' economy, more specifically to apply the corporate governance practices for their success.



## ■ Physical proximity

There are differences in service delivery because of the geographic segmentation of South Africa's provinces. Obtaining visas and expensive air travel are two of the issues raised inside the African continent that also influence South Africa's efforts to draw in African clientele. Accessing air transportation becomes difficult because of high oil prices (Kyalo et al. 2016). This point is supported by South African NTSS (2011, p. 62) (as cited in the National Department of Tourism 2011; National Treasury 2019), which demonstrates that regional and international airlifts are expensive in South Africa because of the inconvenience that flights into country from different markets cause for potential tourists. This makes visitors reluctant to come to the country. Poverty on the continent restricts travelling and is closely related to socio-economic and developmental issues. Inadequate pre-departure storage facilities and, in some countries, airport infrastructure are two additional issues that stakeholders in the tourism industry generally face. Some airports have few waiting areas for connecting flights and fewer options for entertainment before take-off (Abrahams 2019; Department of Trade and Industry 2015). Therefore, the NTSS ought to endeavour to find a solution to this problem. The impact of this problem on the Eastern Cape would then need to be carefully monitored. It will be emphasised how government agencies can help SMTEs become more sustainable.

## ■ The role of government departments and local economic development in promoting the sustainability of small and medium-sized tourism enterprises

There is satisfactory literature that covers deficiencies in increasing the contribution of the local or domestic tourism industry to the economy of provinces in the country. It is apparent that some small enterprises lack the knowledge of corporate governance practices to function efficiently and effectively. These challenges include strategies and policies that do not assist small businesses in how to apply them. Additionally, there are no efficient instruments for assessing destination satisfaction from both the supply and demand sides (Abrahams 2019; Camilleri 2018; National Department of Tourism 2011). Furthermore, rather than being cooperative and collaborative, competition between provinces and tourist stakeholders is generally aggressive. Yet again, issues with tourism mismanagement are felt by experienced decision-makers (Ghanem 2017; Manzoor et al. 2019).

Each municipality creates an LED unit to coordinate, support, facilitate, strengthen, promote and monitor LED strategies, policies, plans and programmes. This includes research and database management, managing

institutions and forums, monitoring and evaluation, as well as the fusion of local government support programmes for municipalities. This is carried out to support the development of tourism. The realisation of national development goals can be strengthened by tourism if it is given enough support from LEDs (Department of Tourism 2018). However, the concentration of these important projects and programmes in urban rather than rural regions reinforce development inequity.

The provisions require the government to consider including the tourist sector as one of the crucial industries in South Africa's economic development plan. Therefore, the government's duties go beyond merely keeping watch on the state. It is feasible to use the relevant government departments, such as the Department of Tourism, the Department of Economic Development and Tourism, the Department of Trade and Industry and the Department of Small Business Development, to formulate policies that will better support SMTEs by providing them with funding, mentoring and training while also attempting to make it more accessible to markets. The chapter also sought to inspire district and local governments on the importance of assisting SMTEs to register with the Companies and Intellectual Property Commission (CIPC), the South African Revenue Service (SARS) and the Unemployment Insurance Fund (UIF), as well as teach them business management skills.

## ■ Research methodology

Data were solicited from 27 tourism-related businesses that offer accommodation at Amathole District Municipality through a purposeful sampling technique. The research instruments used were semi-structured interviews. A qualitative research approach was employed in which data were analysed using inductive and thematic analysis procedures.

## ■ Results and discussions

### ■ Challenges facing the tourism business enterprise

The participants cited several challenges that they face in the tourism industry. These include a lack of capital to start the business, the seasonal nature of the business, the provision of basic public services or commodities, noise pollution and others. This section discusses these challenges and their results in detail.

#### □ Lack of capital to start the tourism business

Some participants commented that they started their businesses with donations from family and friends. Others complain that they could not get loans from financial institutions because of red tape. Indeed, the banks are

not willing to support small businesses as they do not have security. Even WEF (2014), as well as Du Toit and Sewdass (2014), highlighted that small business enterprises need to be financially supported with start-up capital. This has been a challenge for many small business owners as they do not have sufficient capital to start their own businesses (Kyalo et al. 2016; National Treasury 2019). This point is shown by the response of Participant 1 who mentioned that: 'I got assistance from my family to have a start-up capital for this business, because the banks did not give me a loan'. Participant 2 similarly indicated that: 'My friend gave me some money to start my business'. Participant 3 stated that: 'I got a loan from my friend to start my business'.

### ▣ Seasonal nature of the tourism business

One major challenge that participants mentioned was that tourism is a seasonal business, hence they normally have low incomes and even financial losses in bad seasons such as in winter when compared to summer, because most tourists prefer to travel during summer. Furthermore, they know nothing about the corporate governance practices to boost their businesses. This point is portrayed in quotations of responses of Participant 2 who states that: 'The hospitality industry faces challenges during off-peak seasons since our industry is seasonal and, in an off-season, we do not generate the same profit'. Participant 3 asserts saying that 'Seasons change, as off-season is one of the challenges we are facing (e.g. during the winter, there are few people checking in or travelling)'. Participant 6 avers that 'We do not get good business every day, as there are peak seasons and off-peak seasons'.

### ▣ Provision of basic public services or commodities

The problem associated with the provision of basic public services or commodities also seriously affected the participants' operation of their tourism businesses for sustainability. The poor public services included poor roads and signage, a lack of water and electricity, and an increasing crime rate, owing to a lack of sufficient numbers of adequately trained police officers. The following texts supported this viewpoint of Participant 4 who explained that 'Non-town assistance from the municipality, bad water, bad electricity (spikes and cut-offs), alcohol abuse, and theft'. This was further emphasised by Participant 5: 'Load shedding, roads are not maintained by the municipality, water is not clean, etc.'. Participant 7 emphasised 'We do not have billboards which makes it difficult for our customers to find where we are located'. Participant 10 mentioned that 'Tourist say it is not easy to find our establishment because we do not have any signage'. Participant 11 mentioned that 'When people have booked,

it is difficult for them to get in because there is no signage or sign boards that indicate the direction to our business’.

### □ **Noise pollution**

Noise pollution from general community activities was also identified as a problem that business owners encountered in the areas where they were operating. That could chase away the tourists. For instance, Participant 11 says:

‘The braai area over the road creates a lot of dirt and noise. The taxi parking there is blocking the view of the beach with a lot of loud music being played on the weekend which puts guests off staying at the lodge, as they want peace and quiet’.

Participant 12 comments that ‘Tourists or visitors sometimes hold parties when they are visiting, therefore, they make too much noise which disturbs the neighbours.’ Participant 13 concurs that ‘The braai area over the road creates a lot of dirt and noise. The taxi parking there is blocking the view of the beach with a lot of loud music being played on the weekend which puts guests off staying at the lodge, as they want peace and quiet’.

### □ **Abscondment of employees and strong competition**

There are also industrial-related problems that have been a major problem for participants as business owners. Some of these challenges include the absconding of employees along with high competition from rival tourism business ventures. The corporate governance practices were not necessarily understood by them to improve the business operations. These bottlenecks were also highlighted by Asghari et al. (2019), Calof (2017), Bushe (2019), and Yoshino and Taghizadeh (2016). This is demonstrated by the following response by Participant 10 who indicated that ‘Unqualified staff who do not want to sign contracts who just leave whenever they want (absconding)’. Likewise, Participant 15 states that ‘There are a lot of B&B’s that cause higher competition for clients’.

### □ **Increase in the number of social ills**

There were negative effects generated by the tourism business on the immediate community. Participants highlighted that there was an increase in the number of social ills owing to the existence of their business enterprises, which directly affected their sustainability. As they did not understand the corporate governance practices, they were unable to deal with social ills appropriately. These social ills included the heightening of crime, vandalism of property, hijackings, murder, cheating and prostitution, all of which affected their businesses’ operations

(Botha et al. 2020; Bruwer & Coetzee 2016; Dicey 2016). Various types of crime in the province have increased mostly as robberies and hijackings together with murders continued to be reported by the police. The following statements explain this perception, for instance, Participant 9 believes that 'People use it to do undercover practices such as cheating on their partners at our places'. Participant 13 observed: 'Vandalism on the environment and property, especially when we host mega and corporate events'. Highlighting the challenges further, Participant 22 notes: 'It increases waste disposal problems and increases the level of crime in the communities'. Affirming the challenges, Participant 24 explains that 'The industry has attracted criminal elements such as drug and human traffickers, including prostitution'. Pointing out the other challenges, Participant 27 mentions that 'Has also increased the level of vulnerability to other forms of crime such as robberies, hijackings, murders, etc.'

## ❑ **Destruction of the environment**

Another negative impact produced by participants' business establishments includes increased destruction of the natural environment (through pollution and the inability to manage waste) along with the inability to harness limitations posed by natural landscapes (for example, the lack of sea views and beaches, along with wildlife). This point is reflected by the following respondents' comments. Participant 7 states that 'Pollution like soil pollution, because of bottles and plastics around town, has been on the rise...' Participant 8 commented that 'Few places to visit, no game reserves, no sea around...'

## ❑ **Problems affecting the development of tourism in the local community**

The participants mentioned several challenges hindering tourism growth in their local communities. Participants outlined that there was a general lack of investment to support their hospitality industry at large. This investment, which was generally absent, in respect of the absence of the much-needed skilled workforce in the industry, along with the absence of current technology, financial input, poor service provision and lack of the proper application of corporate governance practices to support their business operations is contributory to sustainable tourism (Chingunta 2017; Finmark Trust 2016; SEFA 2017).

The following excerpts describe this scenario: Participant 3 states that 'Limited resources to implement plans to develop the community as a tourist destination. Lack of knowledge at some level in terms of the tourism industry at large'. Participant 9 similarly mentions that 'People who have gone to schools, those who were supposed to bring new ideas to develop our areas, are leaving for the big cities which prevent us from growing'.

Participant 6 affirms that ‘Most attractions are not well-known by tourists and there is poor service delivery’. Participant 19 elucidates that ‘Tourism students and workers do not want to bring their knowledge into our areas since we are in small areas that are not even developing’.

### ❑ **Lack of stakeholder support**

Another major problem respondents outlined as one of the main challenges affecting tourism development was the lack of stakeholder support. For example, the government officials and LEDs had not assisted with training and educating these business owners as per government and tourism policies. The statements presented below illustrate these views.

Participant 24 says ‘The local community is ignorant, and they do not support local businesses; instead, they are calling me names and giving me a poor reputation’. Similarly, Participant 26 mentions that ‘Poor government development agency officials who fail to empower locals with the information that the government offers small businesses’.

### ❑ **Immigration regulations that affect the currency exchange rate**

Participants confirmed that the bad economic outlook and strict immigration considerations also had a bad effect on tourism growth in their community at national and international levels as supported by Calof (2017), Williams, Maartinez-Perez and Kedir (2017). For instance, participants hinted at the Rand currency exchange rate decline and the impact of inflation on booking prices, which tended to lower tourists’ interest. The following verbatim responses demonstrated these perceptions.

Participant 21 comments ‘The overall price of living increases in tourist destinations in terms of rent and rates’. Participant 23 elaborated that:

‘Economic challenges such as currency exchanges (e.g. when the Rand is not strong against other major currencies); there’s a huge drop in tourist numbers visiting the hotels and other facilities.’

In agreement, Participant 24 mentions that:

‘Political climate and instability in government administration regarding policies (e.g. the requirement for birth certificates for tourists to carry when visiting SA), competing with established tourist attractive countries such as Botswana and others abroad.’

These views are like some of the challenges that have been cited by Alkahtani et al. (2020), Bushe (2019), Cant and Rabie (2018), Chimucheka and Mandipaka (2015) and SEDA (2016). This implies that the SMTEs face challenges, which hinder their sustainability and the efficient and effective application of corporate governance practices.

## ■ The positive impacts of the tourism business on the local community

Global Entrepreneurship Monitor (2018), Nieuwenhuizen (2019) as well as Chandra et al. (2020) also support the view that SMMEs provide job opportunities to local citizens. Responses from most participants reveal that their business enterprises have been creating jobs for people in the local community. This employment creation was generated by people being employed in the various functions of hospitality service along with the development of other industry-related occupations. It is clear from these findings that job creation was perceived as a fundamental contribution of SMTEs that improves the standards and reduces poverty. This is accordingly manifested in the following verbatim statements.

Participant 1 states 'It improves the standard of living through jobs in the form of part-time or seasonal and permanent jobs. It also improves the levels of the economy'. Participant 2 provides the description of 'Job creation by even opening the firms that were closed a long time ago. Improvement around town like buildings; they should build towers...' Consenting, Participant 3 confirmed that 'It gives the community opportunities to get jobs because we always employ people from the surrounding areas'.

## ■ Preservation of tourists' resources

The participants added that there was preservation of tourists' resources (both natural and man-made) throughout their business' existence. Moreover, their tourism establishments have created new ideas and ways of thinking and operating for entrepreneurial success and sustainability, which support positivity in society. It has evolved because diverse cultures and people of different backgrounds met and had good discussions and conversations. This is supported by Donga et al. (2016), Peck et al. (2018) as well as Pandy and Rogerson (2021).

This was reflected by the following statements: Participant 4 explained that 'Increased business opportunities for small business owners as well as exposure to diverse cultures and ways of thinking'. In a way that suggests an appreciation of SMTEs, Participant 5 acknowledges that 'the departments use our places to accommodate people who are coming to our areas, bringing change, and those who come, positively impact us'. Demonstrating deep comprehension of the nature of SMTEs, Participant 6 elucidated that 'Nature - there are still beautiful things like beautiful forests which have been preserved and the weather is always warm which is good for tourists'.

Judging by these responses, there is a positive outlook on the functions and nature of SMTEs. This suggests that alternative ways of dealing with

the challenges facing SMTEs thereby facilitating their sustainability could be beneficial to the communities. This study holds the major premise that integrating corporate governance in SMTEs' operations will enhance their growth and sustainability.

## ■ **Embedding sustainability of small and medium-sized tourism enterprises through the integration of corporate governance**

Small and medium-sized tourism enterprises should adopt the sustainability theory and apply corporate governance practices for their survival and profitability (Camilleri 2018; Hove-Sibanda, Sibanda & Poee 2017; Manzoor et al. 2019). According to Ghanem (2017):

[7]he concept of corporate governance encompasses policies, processes, and people, designed to govern the companies towards sustainable value generation. It is believed that corporate governance in its practical application is an important key that unlocks the true value of a business regardless of the firm size [(Camilleri 2018).] The practice of good governance in a company [improves performance, reduces] risk, opens the way to efficient financial markets, and establishes an attractive investment climate, showing openness and social responsibility. (Mukherjee & Sen 2019)

## ■ **Corporate governance enables the business to make competitive strategies**

In tough market competition, corporates can enhance the sustainability of the firm by applying corporate governance practices to remain competitive. 'Furthermore, the corporate governance level enhances the operational efficiency of the company to a certain extent. It is believed that effective corporate governance can improve corporate performance' by satisfying the needs of the stakeholders, increasing the benefits of employees and protecting them as well as the environment (Xue et al. 2022). In addition, corporates with higher governance levels have higher openness in the application of the rules and daily operations.

## ■ **Corporate governance enables the business to make competitive information and communications technology strategies**

According to available literature, decision-making during a crisis requires the acquisition of rich information as well as its effective use (Wang et al. 2018). In emergency responses, both human agents and digital technologies become deeply entangled as complementing forces. Firms integrate digital



technologies into their business to collect information from various business processes, which in turn can be [utilised] to support data-driven decision-making (Chen et al. 2022). For tourism businesses to become sustainable and profitable, they should apply ICT strategies in enhancing corporate governance practices.

### ■ **Corporate governance improves small and medium-sized tourism enterprises' access to finance and performance**

Nasrallah and Khoury (2022) believe that corporate governance is a perfect tool to enhance the financial performance of SMEs. Nasrallah and Khoury (2022) conducted a study to determine the link between corporate governance and the financial performance of SMEs in Lebanon. They distributed questionnaires and collected data from a sample of 150 non-listed companies. The results of the study showed a positive interdependency between corporate governance and financial performance. Effective corporate governance yields increased financial performance. On the other hand, Babajide et al. (2021) conducted a study on how financial literacy and capabilities affect the sustainability of small firms in Nigeria. The study sample consisted of 300 small business owners. They discovered that financial sustainability, social responsibility and environmental sustainability have a positive effect on the firm's sustainability. The study further revealed that small firms should use corporate governance sustainability models to improve performance.

To alleviate poverty and enhance sustainability, small businesses should be supported to build capacities in finance management skills and the application of corporate governance principles (Alaali et al. 2021; Lukiyanto & Wijayaningtyas 2020). This will also assist the SMTEs in how to manage their businesses as well as budgeting and finance management.

### ■ **Corporate governance assists in accessing the markets**

Corporate governance has been recommended for its ability to enhance organisational performance and improve access to emerging markets. In the past two decades, corporate governance in emerging markets has been researched. The companies that practise corporate governance tend to perform better and can access the markets than those that do not apply the corporate governance practices. It is believed that firm-level corporate governance is linked with firm value and other aspects of the performance of the organisation (Ararat, Claessens & Yurtoglu 2021).

Pahlevi et al. (2023) aver that stakeholders that collaborate in the implementation of corporate governance tend to develop good working relations:

[D]espite market revitalisation proving to be highly costly. In some places, market development has simply resulted in marginalising the old traders who cannot improve their livelihoods. Therefore, the revitalisation programme of traditional markets must not only improve the facilities but all aspects of traditional markets (Pfeffer 2019). (Bichler 2021)

## ■ **Corporate governance promotes sustainable strategy, enabling small and medium-sized tourism enterprises to make better operational decisions in their entities**

Human and environmental issues that affect the sustainability of SMTEs are calling for the application of corporate governance practices to rebalance the social, economic and environmental goals. The role played by the corporate governance model informs the policies that try to enhance good governance in the organisations as well as promote the economic growth of the country (Omri & Mabrouk 2020). The SMTEs need to apply these corporate governance practices to sustain their businesses. It is widely held that good corporate governance practices assist significantly in uplifting corporate performance and bring in business success and sustainability (Hosoda 2018; Sivaprasad & Mathew 2021).

## ■ **Corporate governance promoting environmental risk management**

Omri and Mabrouk (2020) are of the view that good governance practices enhance the achievement of sustainable development goals, which have a direct impact on the performance of SMTEs. Managing a business through the application of corporate governance practices allows for the early identification of the risks within and outside the organisation. They can make timely adjustments to problems existing in the company's operation, avoid potential risks in time, reduce transaction costs, and improve production and operation efficiency (Xue et al. 2022).

Xue et al. (2022) mention that through environmental scanning, SMTEs can identify the risks by applying ICT tools and mitigate them before they affect business operations. Effective corporate governance promotes the integration of the business with the external world by protecting the environment, monitoring human development to reduce carbon emissions and improving the level of environmental conditions (Groot et al. 2019). Furthermore, good governance leads to access to information which

fosters the desire of the citizens for a cleaner environment and public awareness of environmental legislation as well as political freedom. Because SMTEs are established in the local areas, they are at the centre stage in mitigating the environmental risks that can affect their businesses.

## ■ Conclusion

This study concludes that the critical impact of SMTEs on economic prosperity has been attested in empirical studies. However, despite the importance of SMTEs promoting economic development, they are faced with many sustainability challenges. Small and medium-sized tourism enterprises were found to face the challenges of a lack of resources and temporary employment, fierce competition, some municipalities supplying SMTEs with substandard goods and services, the seasonal nature of the tourism business, and cultural differences between employees and tourists affecting communication and engagement. Other challenges included noise pollution, bad water, load shedding, poor Internet connectivity, immigration regulations and the lack of stakeholder support. Others included the general lack of investment to support the tourism industry like poor service provision, the lack of training in corporate governance practices to boost business operations and social ills like crime, vandalism of poverty, hijackings, murder, cheating and prostitution. The study concludes that all these challenges affect the tourism businesses' operations directly or indirectly.

## ■ Recommendations

While SMTEs face a wide range of challenges, this study recommends that the adoption of corporate governance could be useful in addressing internal challenges, thereby strengthening the survival and growth of SMTEs. Effective corporate governance can promote effective ICT strategy formulation and implementation to the end of enhancing the sustainability of small businesses operating in the tourism sector. This study makes the major recommendation that SMTEs should adopt and apply corporate governance practices for their survival, profitability and overall sustainability. Integrating corporate governance embeds sustainability of SMTEs through improving financial management, strategic planning and implementation of environmental risk management systems. The government through the LED offices, South African Local Government Association and other financial institutions, tourism department and non-governmental organisations should work together for the upliftment of the SMTEs in the local areas. The partnerships between public and private organisations should be strengthened to enhance the development of the tourism sector to boost the economy of the country. The district and local municipalities

should improve service delivery of the infrastructure including roads, electricity, telecommunications, water and sanitation. The study will influence the policies on providing support to SMTEs as well as strengthening the application of corporate governance practices in small business enterprises. In addition, universities and TVET colleges, through their staff and students, should partner with the SMTEs to train them in business management skills, accessing finance and markets as well as motivating the employees to perform better.



# Government policies for promoting small, medium and microenterprises development in South Africa

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## ■ Abstract

The small, medium and microenterprises (SMMEs) in South Africa before 1994 were operating under strenuous conditions because of unjust government policies. Post-1994 policies were formulated to promote the sustainable development of SMMEs. Despite the availability of government

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policies aimed at promoting SMMEs, these entities continue to experience challenges attributed to a lack of management, accountability, transparency, skills transfer and poor monitoring. This chapter is premised on the argument that government policies aimed at promoting SMMEs development should be complemented by the adoption of effective corporate governance in small business entities. Against this backdrop, the chapter explores government policies promoting SMMEs development through fostering sound corporate governance practices. A critical analysis of improved performance and sustainability of SMMEs through corporate governance is repromoted through various government policies articulated under the following themes: Regulatory environment of SMMEs, supply chain management, training and skills transfer in SMMEs, finance and management skills. The supply chain management and procurement practices should be aligned with legislation to enhance good governance and should demonstrate equity, open and effective competition, fairness, transparency, cost-effectiveness and accountability. Through imposing corporate governance, the government SMMEs support policies can be actualised through the provision of sustainable entrepreneurship to provide stakeholders with the relevant and adequate knowledge, skills, aptitude and exposure that promote the development of SMMEs. The sustainability of entrepreneurial firms depends on the four pillars, namely, finance, social impact, government support and environmental index.

## ■ Introduction

Small, medium and microenterprises (SMMEs) are key to the innovation and development of any economy, and they constitute a greater portion of the business sector, especially in developing countries (Cheng, Lourenco & Resnick 2016; Hosseininia & Ramezani 2016). In addition, SMMEs are considered the foundation for economic development in any economy because they play an important role in developing innovative ideas and creating business opportunities for the poor (Cheng et al. 2016). Moreover, SMMEs provide knowledge to the communities for the growth and development of the new generations (Chege & Wang 2020). Overall, SMMEs have critical features to grow the economy, create employment and contribute to the national development of countries (Hewitt & Van Rensburg 2020). Because of their key role in building the economy, the government of South Africa should put in place policies to support the sustainable performance of SMMEs.

However, despite the availability of multiple government policies on promoting small business enterprises since 1994, a recent report by the National Integrated Small Enterprise Development Masterplan

(NISED), 2022 reveals that SMMEs growth in South Africa has been stagnant for the past three decades. In addition, it appears several government policies have been rolled out to support the development of SMMEs (NISED 2022). The continued decline in entrepreneurship activity prevails against a backdrop where the National Development Plan (NDP) Vision 2030 considers SMMEs as a national economic development strategic driver in South Africa. Drawing on this remitted evidence, this study submits the premise that Government policies for promoting SMMEs development alone are not adequate to promote the performance and sustainability of SMMEs in the absence of the adoption of corporate governance practices in these entities.

The sustainability of SMMEs has major implications for the economic development of any economy. Some of the challenges confronting the world today come from the slow development of the economy because of escalating levels of unemployment, poverty and inequality (Brijlal, Enow & Isaacs 2014; Cortes & Lee 2021). South Africa likewise continues to be plagued with social and economic challenges because of the absence of sustainable development of SMMEs. Bolosha et al. (2023) discussed the need for policies in South Africa that prioritise support for SMMEs. Bolosha et al. (2023) explain how the NDP recognises the need to support as a strategic driver for achieving the country's overall economic vision for 2030. Bolosha et al. (2023) further predict that SMMEs will create 90% of all new jobs by the year 2030. It can be inferred that attaining NDP goals and objectives through the development of sustainable SMMEs has implications for multiple stakeholders within a country. Chinomona and Pooe (2013) long articulated the need for policymakers to promote SMMEs' sustainability in a developing world economy like South Africa's. It can therefore be suggested that the presence of policy support contributes to building thriving SMMEs. Similarly, April and Reddy (2015) urged policymakers to ensure that they support capacity-building initiatives that provide skills to entrepreneurs. Chipunza and Mupani (2019) lament that the regulation of SMMEs by the government applying corporate governance can mitigate the high rate of mortality and enhance control systems for better performance. In the same vein, Yasseen, Stegmann and Crous (2020) observed that the sanity and success of any sector including that of the SMMEs are largely dependent on how regulators value that industry and its contribution to the economy.

There is a plethora of regulatory challenges and weaknesses in the SMME sector in South Africa. For instance, Schenk (2017) identified government policy that exposes start-ups to burdensome compliance with regulatory red tape regarding municipal issues, South African Revenue Services (tax, compliance with Broad-Based Black Economic



Empowerment [BBBEE]) and labour legislation issues (employment equity, basic conditions of employment, sectoral wage determinations) as onerous to these entities. Furthermore, the red tape and prescriptive regulations in the SMMEs sector from inter alia are negatively affecting the survival of these businesses (Nieuwenhuizen 2019; Yuliarmi et al. 2021). Hove-Sibanda, Sibanda and Poee (2017) point out that the success of SMMEs has recently been influenced by their compliance and respect for laws, ethics codes, standards practices and policies that regulate them. These views suggest that despite their vulnerable nature SMMEs are expected to adhere to their government regulations and legislation which might be burdensome to them as part of adhering to good corporate governance practices.

## ■ Problem statement and study objectives

A large body of research examined government support policies available to promote the sustainable development of small businesses in South Africa; however, few studies have examined how the adoption of corporate governance can enhance the implementation of government intervention (Joubert, Briers & Meyer 2020; Sun et al. 2022). Improving the performance and sustainability of SMMEs forms part of South Africa's national economic development strategy given its dominant population of around 58 million (Sun et al. 2022). Strategically, the state recognised SMMEs as the fabric of the economy that goes beyond national boundaries. Small, medium and microenterprises are used by many people to achieve economic transformation and job creation to sustain the economy (Sun et al. 2022). Again, this highlights the benefits of SMMEs to both the individual and the economy at large. This also emphasises why it is important for the government to devise policies that foster the sustainability of SMMEs. It is therefore imperative to revisit the government policies on promoting the sustainable development of small businesses.

Currently, SMMEs in South Africa face several challenges attributed to poor management, accountability, transparency, skills transfer and poor monitoring, which may be partially addressed through effective corporate governance (Dassah 2018; Hewitt & Van Rensburg 2020). Matekenya and Moyo (2022) recognise the adoption of sound corporate governance as a possible solution to addressing internal operational challenges faced by SMMEs and fostering their sustainable development. According to Rogerson (2004), corporate governance of SMMEs can bring stability to them when they are supported by the acquisition of business skills, access to finance and markets, and provision of entrepreneurship education. An entrepreneurship ecosystem involves empowering existing businesses with survival skills and creating new ventures by introducing new products, services or technologies (Hewitt & Van Rensburg 2020).

Urban and Msimango-Galawe (2019) bemoan the absence of enough interface between policymakers and entrepreneurs (SMMEs) especially when it comes to the need to make policy and regulatory input on the transformations that are needed in the South African SMME fraternity. Kalane (2015) established that the lobbying process of SMMEs in the policymaking by the government is ineffective and has contributed to the high failure rate of SMMEs. Some of the government regulatory laws are considered a threat because of the overregulation of SMMEs in South Africa (Leboea 2017). There is a need to allay this regulatory burden faced by SMMEs. Nieuwenhuizen (2019) lists the following as the regulatory flaws of the local SMME sector: frequent changes in the regulatory environment require time and prudent financial investment to ensure compliance, an overlap and often-conflicting regulatory requirements between different governmental institutions and a hostile environment that prohibits business growth because of government regulations.

According to Ncube (2014), SMMEs perform poorly and some fail even before reaching a 2-year lifespan. This is because of challenges such as the knowledge gap in running businesses and managing finances (Brijlal et al. 2014; Kalane 2015; Ncube 2014). Van Staden (2022), however, notes that there is support from national and local governments to assist SMMEs. The provided support not only decreases SMMEs' rate of failure but promotes their growth and success (Van Staden 2022). There are plenty of government initiatives in South Africa to help the existing SMMEs' growth and those start-up business ventures, for the benefit of increasing the turnover. Nonetheless, the regulatory grey areas and challenges continue to stifle SMME's growth and survival (Peters & Naicker 2013).

There are many opportunities provided by the government to support SMMEs; however, it appears that small businesses cannot take off and survive because of the absence of enough provincial or local government regulatory frameworks (Frynas & Yamahaki 2016). At the sub-national level, Malapane and Makhubele (2013) researching the Gauteng Enterprise Propeller, an SMME support initiative, found out that there are power tussles which include political interference and devolution of decision-making powers to the regions (hence the confusion of who is responsible for the regulation itself). In other words, the national and provincial governments are tussling over oversight and control of SMME initiatives and support programmes. Furthermore, there is an acute breakdown of relationships and partnerships which has led to the discontinuation of assisting stakeholders to register their businesses (Malapane & Makhubele 2013; Matekenya & Moyo 2022).

Overall, policies and regulations of SMMEs at the national government level are inevitably spilling over to other sub-national tiers of government. Such a process thereby requires interventions aimed at making sure

that the merits of decentralised government are also passed to empowered local government entities, making their areas of jurisdictions an investment destination and SMME-friendly environment for improved tax bases and employment. Against this backdrop, the following questions arise: do government policies regulate the environment of SMMEs? How do government policies affect the Supply Chain Management System? What government policies refer to the training and skills transfer in SMMEs? How do government policies relate to finance and management skills? Hence, this chapter aims to unravel government policies for promoting small business development in South Africa through the adoption of corporate governance in SMMEs.

## ■ Literature review

The social capital theory and stakeholder perspective provide the theoretical framework underpinning this study. As part of government policies, SMMEs are expected to balance their profit-seeking interests with those of society. The social capital theory underpins government policies and expected corporate conduct and behaviour of SMMEs. The government policies promoting SMMEs' development adopted the social capital theory of Bowen in 1953 (Latapi-Agudelo, Jóhannsdóttir & Davídsdóttir 2019; Perrini 2006). In this theory there was a concern about establishing whether there is a merger between business interests (profit-making) and interests of the society.

The focal point of the social capital theory relates to SMMEs, where the process of promoting SMMEs development encourages ethical and competitive businesses with different training perspectives (Advantage 2020; Bongomin et al. 2018; Perrini 2006). The social capital theory of corporate social responsibility (CSR) provides ethical tools to manage the implementation of responsible corporate strategies and the best responsible managerial practices (Carroll 2015; Latapí-Agudelo, Jóhannsdóttir & Davídsdóttir 2019). The policies include competitive strategies, informed processes and ethical tools that have elements of trust, societal norms, connecting people and networks, cooperation in communities and local engagements. It is believed that SMMEs should have coordinated activities for efficient businesses in society to promote civic engagements, collective well-being and long-term performance (Advantage 2020; Perrini 2006).

Guiding SMMEs on policies, processes and performance is based on the instruments found in the social capital theory (Frynas & Yamahaki 2016; Perrini 2006). As SMMEs operate in a commercial environment to make a profit, the social capital theory promotes that there should be societal values to enhance the welfare in society. In addition, as the theory indicates broader social benefits like education and community development,

it equivalently creates opportunities for access to markets, high productivity and SMME innovative strategies (Carroll 2015). Therefore, SMMEs could benefit society with successful career paths, job creation, promotion of intellectual capital, formation of strong supply chain relations, strong networks and entrepreneurial society. The adoption of this theory implies that SMMEs should operate in an environment where public authorities assist in promoting business ethics among themselves. Therefore, businesses are obliged to decide, act and formulate policies based on the objectives, cultural beliefs and values of the society (Advantage 2020; Frynas & Yamahaki 2016; Latapí-Agudelo et al. 2019).

To ensure the sustainability of SMMEs, corporate governance is infused in businesses to secure funds issued by investors, promote businesses run ethically to address societal issues and be mindful of environmental issues (Latapí-Agudelo et al. 2019). Based on the stakeholder theory the adoption of corporate governance in SMMEs has the potential to improve the way the entity manages the various support received from various government policies. King Reports IV lays out some guidelines and principles that are most important for the good governance of SMMEs as global players (Kilian 2020). The board of directors manages and pursues the interests of shareholders.

Urban and Msimango-Galawe (2019) bemoan the absence of enough interface between stakeholders such as policymakers and entrepreneurs (SMMEs) especially when it comes to the need to make policy and regulatory input on the transformations that are needed in the South African SMME fraternity. Kalane (2015) established that the lobbying process of SMMEs in the policymaking by the government is ineffective and has contributed to the high failure rate of SMMEs. Some of the government regulatory laws are considered a threat because of the overregulation of SMMEs in South Africa (Leboea 2017). There is a need to allay this regulatory burden faced by SMMEs. Nieuwenhuizen (2019, p. 669) lists the following as the regulatory flaws of the local SMME sector:

Frequent changes in the regulatory environment require time and prudent financial investment to ensure compliance, an overlap and often-conflicting regulatory requirements between different governmental institutions, and a hostile environment that prohibits business growth due to government regulations.

The provincial and local government stakeholders are responsible for availing opportunities for SMMEs where there is the provision of regulatory frameworks (Frynas & Yamahaki 2016). This is witnessed in the Gauteng Enterprise Propeller where stakeholders are supported in an entrepreneurship ecosystem (Malapane & Makhubele 2013). The propeller aims for resource mobilisation and promotes an entrepreneurship ecosystem in an integrated approach. The Gauteng Enterprise Propeller managed to assist in SMME

development in areas of finance, investment and corporate governance (Malapane & Makhubele 2013; Matekenya & Moyo 2022). The area of corporate governance includes values of 'ubuntu', diversity and ethical leadership among others, which can contribute to the sustainability of SMMEs (Kalitanyi 2019).

Sustainable SMMEs need confident managers who quest for social change, are competitive and show survival skills (Hewitt & Van Rensburg 2020). There should be policies that are environmentally friendly and characterised by how issues of uncertainty, economic stagnation and political upheaval are addressed. This could boost massive economic growth and job creation as SMMEs work productively in a conducive climate (Sherman 2021). The chapter intends to address how corporate governance can assist SMMEs in sustaining their businesses by exploring predictable, transformed, directional and risk-free government policies. For successful and sustainable businesses, there should be strategic and visionary leadership that is aligned with government policies (Kalane 2015).

Closure of failed SMMEs in South Africa worsened during the coronavirus disease 2019 (COVID-19) era (Hewitt & Van Rensburg 2020). It is crucial to note that this could have been avoided if innovative and entrepreneurial skills to produce unique products were used by businesses. Additionally, the following Reconstruction and Development programmes need to be reconsidered for the sustainability of SMMEs:

Access to advice; favorable amendments to legislative and regulatory conditions; access to marketing and procurement; access to finance; access to infrastructure and premises; access to training; access to appropriate technology; and encouragement of interfirm linkages (Sithole 2006, p. 34)

Institutions of education can provide entrepreneurship education which instils an entrepreneurial culture within and outside the institutions (Sherman 2021).

The transforming South African universities can boost sustainable projects that are innovative through the commercialisation of research (Dassah 2018). Commercialisation of research can be successful in an entrepreneurial ecosystem that embraces corporate governance. So, the chapter views strategies to be used through corporate governance to enhance the entrepreneurial skills to sustain businesses. A few of the strategies, such as frameworks, policies and models for a successful entrepreneurship ecosystem, are mentioned in the literature (Sherman 2021). The entrepreneurial skills, policies promoting venture creation and access to funding might generate sustainable SMMEs. This is adhered to by the fact that entrepreneurship education can enhance a firm's profitability, improve competitiveness, and promote regulatory policies and, ultimately, the sustainability of SMMEs (Hosseininia & Ramezani 2016).

Since 1999, the South African national government has supported the sustainability of the SMME economy so that there can be a conducive environment for success by regulating the system with legislative reforms (Bruwer & Van Den Berg 2017; Bruwer & Coetzee 2016). To promote SMME performance, the South African government provided a national strategy that includes finance opportunities, regulations and evaluation of the impact on the society and economy (Hewitt & Van Rensburg 2020).

## ■ **Government policies promoting small, medium and microenterprises development through corporate governance**

This section reviews government policies regarding the regulatory environment for SMMEs, supply chain management, training and skills transfer within SMMEs, and the incorporation of corporate governance into finance and management skills.

## ■ **Government policies on the regulatory environment of small, medium and microenterprises**

After 1994, the government of South Africa focuses on a workable piece of legislation to address inequalities in labour markets and create job opportunities. One of the contentious issues is the identification of policies that play a pivotal role in corporate governance. Nieuwenhuizen (2019) posits the *National Small Business Amendment Act*, of 2003 as the cornerstone for the establishment of the National Small Business Council (NSBAC). Small Enterprise Development Agency (SEDA) allows for greater access to mass production to benefit the massive societal consumption of the economy at provincial and local government levels. Undoubtedly, SEDA considers that SMMEs represent different characteristics and needs in the economy (Bhorat, Asmal, Lilenstein & Van der Zee 2018). Therefore, NSBAC has to press hard to differentiate the impact on SMMEs and their ability to grow (Chatchawanchanchanakij, Arpornpisal & Jermsittiparsert 2019). However, although the policies are aimed at promoting sustainability, the lack of internal corporate governance practices within SMMEs might have failed to promote the development of sustainable small businesses.

On regulations, companies worldwide adopted international corporate governance to separate powers between the shareholders (owners) and the board of directors (strategists) (Aguilera, Marano & Haxhi 2019). Further to this, the United Nations of 1945 declared the Principles and Guidelines of cooperation as a bridge between business owners and strategists (Sherman 2021). Small, medium and microenterprises are compelled to do business

activities on behalf of the state. Such partnerships have been forged in an agreement that is legal bidding. Following this, African member states adopted a self-monitoring tool to drive an African agenda on democracy, political, economic and corporate governance in 2003 (Bongomin et al. 2018). In the same vein, Chigudu (2018) suggested that African leaders have a responsibility to link the communities with their natural resources to achieve their political agenda at a local government level. The uncertainty continues to cloud the unclear business strategies in Africa. Hence, economic transformation conversations are necessary to track and trace the dynamics of performance for Africa (African Agenda 2063). Admittedly, legal agreements alone are not the solution where the environment, regulations and culture matter (Khumalo 2020).

The Department of National Treasury and the Department of Trade, Industry and Competition (DTIC) promulgated the Localisation Framework Programme for market access of SMMEs at the local level (Bhorat et al. 2018). This emanated from the *Preferential Procurement Policy Framework Act (PPPFA)* of 2000 that the business is subjected to the local content. The StatsSA (2020) reported an increase in registered SMMEs from 2,343,058 to 2,614,043 in South Africa. There is a lack of adequate data on formally registered SMMEs; however, support mechanisms are needed (SMMEs Report 2019–2024; Matekenya & Moyo 2022). These government policies on supporting SMMEs improve the performance and sustainability of the SMMEs, but there are challenges with these policies or implementation of these policies as discussed in this chapter. Hence, this chapter suggests awareness and training SMMEs on available government policies.

The targeting of local businesses to participate in streamlining the economy is a challenge (Makwara 2019). Taking a positive step to address the imbalances of the past, the Department of Trade and Industry (DTI) enacted the *BBBEE Act 53 of 2003* as well as the International Finance Corporation. On the contrary, Francis and Valodia (2021) identified limited strategies such as the exclusion of youth and women for empowerment. The inability to strengthen the value chain for local economic growth is a major challenge (Chiromo & Nani 2019). Good practice (corporate governance) is minimal in its implementation to increase equity participation in business (Dreyer, Viviers & Mans-Kemp 2021; Pike, Puchert & Chinyamurindi 2018).

## ■ Government policies on supply chain management

The study explores supply chain management and the sustainability of SMMEs. The study discovered in a series of discussions of policy frameworks from a point of discomfort raises dimensionality issues across the business. In this case, societal needs become a core and the policies are ineffective



in this imperative. Moreover, how does one account for the problems of society that are structural and systematic in nature? Corporate governance and supply chain management need to develop a concrete structure to meet the market change and tap into the evolution of new technology (Dassah 2018). Notably, SMMEs should take note of human capital where quality and compliance are important. There should be a balance between corporate governance and the sustainability of SMMEs. It is critical for a business to create policies that are relevant to societal needs such as the requisition of skills and skills transfer.

Post-1995, the South African government developed the supply chain management system with procurement reform that can promote principles of good governance. These reforms were based on the malpractices that emanated from South Africa adopting the *Public Financial Management Act (PFMA)* and the PPPFA (Selomo & Govender 2016). There was no alignment between the PPPFA and *B-BBEE Act* codes of good practice. The DTI and the National Treasury identified challenges with the execution of the procurement system, especially practices by SMMEs. In 2003, a supply chain management policy was adopted in South Africa to implement its functioning in promoting best practices, standardisation and uniformity of government's PPPFA at all spheres of government. Then, the suggested solutions were that supply chain management and procurement practices should be aligned to prescribed legislation to enhance good governance and performance (Bizana, Naude & Ambe 2015). Good governance should demonstrate equity, open and effective competition, fairness, transparency, cost-effectiveness and accountability (Bizana et al. 2015; Selomo & Govender 2016). For effective procurement practices, supply chain management should operate at specified conditions, rules and regulations.

The evolution of supply chain management is linked to how goods move from where they are made to the end-user (Bressanelli, Visintin & Saccani 2022; Martins & Pato 2019). State-owned governments grow the economy by providing global network systems through market-driven systems (Sánchez-Flores et al. 2020). The sustainability of SMMEs is the posture of the supply chain to monitor the performance of board members to align business objectives with deliverables (Antwi-Adjei et al. 2020). Schulte, Villamil and Hallstedt (2020) argue that sustainability is not just a risk management tool but ordinarily a piece that should be embedded in the business expectations of corporate leaders for implementation. In this case, sustainability helps to internalise risks in the supply chain process on daily operations (Alzubi & Akkerman 2022; Baah & Jin 2019; Masocha 2019; Saeed & Kersten 2019).

There is evidence that SMMEs have a different way of operating when it comes to supply chain and corporate governance (Alzubi & Akkerman 2022). Small, medium and microenterprises are central to being flexible in



changing environments, especially in developing countries. Moreover, the supply chain is regularly viewed as essential to boost the performance and productivity of businesses (Cheng et al. 2016). This should be demonstrated by entrepreneurs in the performance of SMMEs in supply chain systems. The flexibility characteristics of SMMEs should include features of corporate governance and employ principles that can sustain supply chains. In that way, SMMEs can contribute to job creation and ultimately to the growth of an economy and social development (Saeed & Kersten 2019). Supply chain management can contribute to fulfilling numerous social and economic goals and promotion of entrepreneurial activities (Chege & Wang 2020).

There is evidence suggesting that businesses need to integrate technological advancements into their strategic plans, particularly in supply chain management (Ben-Daya, Hassini & Bahrain, 2019; Bressanelli et al., 2022). The implementation of Supply Chain 4.0 demonstrates how technology is evolving (Ben-Daya et al., 2019; Francis & Valodia, 2021). Therefore, this chapter examines the evolution of regulatory frameworks within the context of SMMEs.

## **Government policies on training and skills transfer in small, medium and microenterprises**

Developing countries including South Africa should foster SMMEs and entrepreneurship to enhance sustainable development goals such as lowering inequality and poverty, creating employment, stimulating trade and driving economic development (Francis & Valodia 2021; Matekenya & Moyo 2022). Entrepreneurship education promotes the development of SMMEs by providing stakeholders with the necessary knowledge and skills to sustain businesses. Hence, the government proposed institutions of learning to support SMMEs for human capital capacitation such as Sector Education and Training Authorities (SETAs), private companies and Higher Education Institutions (HEIs) to mention a few (Berry et al. 2002). To eradicate these ills occurring in SMMEs, corporate governance can be achieved through the provision of sustainable entrepreneurship education (Rogerson 2004, 2005).

In Denmark, the public sector developed manufacturing centres to improve competitiveness and support the sustainability of SMMEs (Rogerson 2008). The manufacturing advice centres programme was launched in 1997 as a joint initiative of Ntsika, the Council for Scientific and Industrial Research (CSIR), the DTI and the National Productivity Institute. The programme led to the development of other initiatives such as a local industrial park, small business incubation and linked sectoral cluster programmes. This initiative of the DTI assisted the SMME sector, was useful in job creation and aligned with the Reconstruction and Development Programme through the creation of a sustainable SMME sector (Reischauer 2018).

Another institution of training and knowledge for entrepreneurs is the business incubator, especially for new business ventures. The industry promotes the development of incubators for SMME growth, especially for their competitiveness. Competitiveness can be achieved through corporate governance and collaborative exercises for SMMEs to overcome barriers in the business (Reischauer 2018). Implementation of government SMMEs supports policies that promote the sustainability of entrepreneurial firms through corporate governance practices by enhancing learning in HEIs.

Higher Education Institutions can be instrumental in providing SMMEs with knowledge, expertise and facilities (Dreyer et al. 2021; Suman & Singh 2020). Small, medium and microenterprises can build their technological capabilities to increase the quality of goods and services produced (Hosseininia & Ramezani 2016). Higher Education Institutions are positioned with staff who are skilled to provide entrepreneurship education, although South Africa is at the preliminary stages of entrepreneurship development (EDHE 2022). In addition, HEIs make research results available to students and SMMEs. The collaboration between HEIs and SMMEs promotes economic development and enhances entrepreneurial skills of creativity (Antwi-Adjei et al. 2020; Suman & Singh 2020).

In the transformation process of HEIs, there should be partnerships with three spheres of government to support SMMEs, and new structures formed for SMME development to be effective (Fuster et al. 2019). At the local government level, there should be provisions for entrepreneurship and SMME development in structures such as incubators and technology transfer offices, among others, where strong partnerships are established (Fuster et al. 2019). In addition, HEI should employ commercialisation officers and staff who are familiar with contracts and patents. In HEI's top management, there should be a responsible officer for innovation like a deputy vice-chancellor dedicated to innovation. Higher Education Institutions use innovation to sustain their teaching and learning and continue to grow for corporate governance.

Higher Education Institutions should collaborate with government ministries and industry to effectively support the development of SMMEs at the national and provincial levels (Bongomin et al. 2018). For effective SMME development in South Africa, there are government policies relating to incubation centres that are established in HEIs and privately (Jordaan & Coetzee 2021). There are distinct types of incubators found in the literature such as University Business Incubators (UBIs), Business Innovation Centres (BIC), Corporate Private Incubators (CPI) and Independent Private Incubators (IPI) (Bomani, Fields & Derera 2019; Prasanna et al. 2019). Business Innovation Centres are those centres that are publicly funded and usually focus on technology infrastructure and finance information. University Business Incubators refer to those found in institutions of Higher

Education and service more of the institution's community, especially students. Independent Private Incubators also known as accelerators usually belong to individuals to support SMMEs while they are still growing.

Corporate Private Incubators are usually formulated by large firms to cater to the emergence of corporate spin-offs (Hewitt & Van Rensburg 2020; Prasanna et al. 2019; Suman & Singh 2020). The HEIs' curricula also changed to provide an entrepreneurship course that addresses societal ills for corporate social responsibility needs (Sullivan & Mackenzie 2017). For example, there should be training on marketing strategies that promote products or services that are unique, high quality, low-priced, satisfy the needs of your target audience or a combination of these (Chege, Gichunge & Muema 2022; Suman & Singh 2020). Such training enables communities to benefit from businesses as their social needs are taken care of and promote employability in the communities (Chege et al. 2022; Skelcher 2010; Umoren, James & Litzelman 2012).

The knowledge of entrepreneurial education assists businesses to grow and contribute to the development of the citizens of the country. Hence, the government proposed institutions of learning to support SMMEs for human capital capacitation such as SETAs, private companies and HEIs (Berry et al. 2002). The *Skills Development Act, of 1998* stipulates the functions and responsibilities of SETAs, where their main function is for skills development, empowering the employed with skills. It has been identified that South Africa is investing less in teaching its citizens about government policies on the provision of skills (Chetty, Beharry-Ramraj & Gurayah 2022). This leads to a lack of several skills like management, problem-solving and team-building skills to name a few. This transpired from the *Skills Development Act of 1997*, which was amended in March 2000 and introduced for SETAs when identified that SMMEs were short of skilled labour (Berry et al. 2002). The South African government is responsible for skills development policies and training of SMMEs to promote sustainability through corporate governance. There should be teaching and learning policies that form part of curriculum reform on SMME and entrepreneurship education in HEIs (Suman & Singh 2020).

Higher Education Institutions and policymakers are key stakeholders in developing the entrepreneurship curriculum, as this can improve the employability of graduates in SMMEs (Roboji, Dyantyi & Ncanywa 2022). The growing South African market for graduates is pointing towards the need for their employability and the government is under pressure to provide policies that can stimulate job creation. Therefore, this chapter informs of the HEIs' curriculum that should include entrepreneurship education for SMMEs that have features of good corporate governance and sustainability. This implies that HEIs should have relevant curricula that allow graduates to leave the institutions with entrepreneurship skills to

enhance economic development (Chetty et al. 2022). This leaves the institutions with graduates who can start their business ventures or use the skills in their jobs if they find one. This strategy can lead to strong university-industry-government relations that aim to provide the knowledge and skills for graduates to enter the industry. Policies taught in HEIs should enforce practices of corporate governance (Jordaan & Coetzee 2021).

## ■ **Government policies on finance and management skills**

Finance, infrastructure, technology and education on entrepreneurship have been proven to play an important role in the success and failure of SMMEs (Kanayo, Agholor & Olamide 2021; Yuliarmi et al. 2021). Entrepreneurship is a vaguely understood concept in which anyone who starts a business is considered to have mastered it. As a result, entrepreneurship is rarely taken as a desired career choice, particularly in Africa (Asah, Fatoki & Rungani 2015). Most entrepreneurs in Africa start SMME businesses either because they need money after retrenchment or unemployment or to seize an opportunity. Despite the considerable contribution to economic development, SMMEs are likely to fail in the first 5 years (Asah et al. 2015). The failure is partially attributed to improper financial management and a lack of pronounced societal benefits that add value to community development (Kanayo et al. 2021). Efforts to improve SMME success involve sustainable entrepreneurship practices that consider community impact to honour societal values, financial competency to generate revenue and create shared wealth, and environmental protection (Kamran et al. 2021; Yuliarmi et al. 2021).

## ■ **Access to finance**

The sustainability of entrepreneurial firms depends on the four pillars, namely finance, social impact, government support and environmental index (Kanayo et al. 2021). Arguably, finance is the enabler of the other three pillars, thereby making it the cornerstone of business success. For example, a lack of capital can result in SMMEs failing within the first 5 years (Cortes & Lee 2021). Small, medium and microenterprises cite a lack of finances from the government and sponsors to carry out social and environmental commitments. Cortes and Lee (2021) further identified that SMMEs need to establish relationships with financial institutions by paying attention to their bookkeeping skills for financial statements and maintaining good credit scoring records (Cortes & Lee 2021; Jordaan & Coetzee 2021). Transparency in finances can be a vehicle to curb salary inequality, wealth concentration among individuals and bribery. Entrepreneurial policies often favour revenue generation, while the government is meant to serve

the public. This conflict in policies deters effective monitoring, as there are no benchmarks to hold the parties accountable. The resulting concentration of wealth among select individuals is widening the inequality gap and perpetuating poverty, poor service delivery and unemployment. The BBBEE scheme was a promising initiative until it started being a gravy train for political associates (Ndebele & Mdlalose 2021). The corporate governance of South Africa is intertwined with political influence, which enables corruption through the BBBEE. As a result, there is neither an independent entity that audits the BBBEE-linked SMMEs nor accountability.

## ■ **Lack of alignment between corporate social responsibility and financial management skills**

The societal values in entrepreneurial firms form part of the corporate social responsibility activities by being cognizant of how the business benefits local communities. Corporate social responsibility activities address issues such as unemployment and youth participation in the economy (Cortes & Lee 2021). Furthermore, it includes fighting poverty and social justice efforts to assist employees and community members beyond legal adoption, supports local communities in need, minimises environmental impact and promotes diversity among others (Cortes & Lee 2021; Kamran et al. 2021; Kanayo et al. 2021). The literature review by Kamran et al. (2021) shows that there is no clear correlation between the business's corporate social responsibility commitment and financial performance. Contrarily, some scholars argued that corporate social responsibility improves sales and cost-efficiency in terms of tax incentives for community engagement and environmental compliance (Lins, Servaes & Tamayo 2017; Martinez-Conesa, Soto-Acosta & Palacios-Manzano 2017; Yuliarmi et al. 2021). For instance, an SMME that hires local community members gains trust and word-of-mouth marketing which subsequently enhances its reach. The SMME stands a better chance of securing social capital from networks forged as it will have access to culture and norms, which can be used as a competitive advantage (Yuliarmi et al. 2021). The networks foster better collaboration between SMMEs, society, government agencies and universities. This facilitates the formulation of regulations such as policies to promote transparency and accountability while ensuring that the partnerships are mutually beneficial (Martinez-Conesa et al. 2017). The initiative requires government agencies that deal with corporate governance to ensure efficient articulation and implementation of the policies.

Small, medium and microenterprises are discouraged by the lack of guiding policies, resources and knowledge to conduct CSR activities, unlike big corporate companies that have dedicated budgets and human resources (Cortes & Lee 2021). The lack of knowledge of CSR also disadvantages

SMMEs in the benefits and incentives accrued. Therefore, SMMEs are encouraged to use available resources to carry out CSR activities in their immediate communities so that they can benchmark according to enterprise size and devise policies inclusive of CSR performance monitoring system (Salciuviene, Hopeniene & Dovaliene 2016). Resources required for CSR activities can be collected through collaborative projects whereby SMMEs partner with each other to exchange capabilities. Government agencies and investors can play a role in ensuring that the SMMEs they sponsor have a budget allocated to CSR activities and that their involvement is used as one of the key performance indicators (Cortes & Lee 2021; Kamran et al. 2021). The conditions of the grant include SMME contribution to the NDPs, local government community development projects and/or sustainable development goals. The practice will raise awareness of the programmes and subsequently fast-track their achievements while cultivating an entrepreneurial community with a common goal (Kanayo et al. 2021).

## ■ Policies guiding good corporate governance of small, medium and microenterprises

Good governance of SMMEs is explained in the King Reports IV, where there are important guidelines and principles (Kilian 2020; Ramalho 2020). These guidelines assist the board of directors in managing activities to pursue the interests of shareholders. Consequently, the goals of the business must be clear to the shareholders (Suman & Singh 2020). In other words, the application of accountability and sustainable decisions in all operations of the business is a priority (Craig 2019).

## ■ Conclusion

The chapter explored government policies promoting SMMEs development in the three spheres of government, meaning local, provincial and national governments. It is a conceptual study, where literature was critically analysed. A review of the literature leads the study to conclude that to enhance the performance and sustainability of SMMEs through corporate governance, an integration of national, provincial and local government policies is necessary. Various government policies that were examined, such as the regulatory environment of SMMEs, supply chain management, training and skills transfer in SMMEs, and finance and management skills, were all working in silos and not embedded as part of good corporate governance of the SMMEs. The study further concludes that the adoption of corporate governance in SMMEs internal practices combined with effective implementation of government policies is instrumental for promoting sustainable development and performance of small business enterprises. This means that SMMEs, if

managed through corporate governance may ensure sustainability as community needs are addressed, while regulatory measures are in place, and the business impacts positively to society.

## ■ Recommendations

It is recommended that SMMEs have corporate governance policies that ensure transparency to minimise inequality, promote wealth creation among individuals and reduce bribery. The policies must have a monitoring framework to ensure compliance for the benefit of the business, community members, funders and the environment. Corporate social responsibility as a key principle of good corporate governance should be carried out as part of social values, strengthening partnerships with stakeholders and subsequently enhancing chances of securing social capital because of the competitive advantage on norms and cultural values. Unfortunately, SMMEs do not have the skills and budget to do corporate social responsibility and thereby miss the benefits. Hence, this study recommends a review of policies to create an enabling environment for corporate social responsibility. For instance, funders of SMMEs must address social issues as part of key performance indicators, and a percentage of the funding is dedicated to corporate social responsibility activities.

As an integral implementation of good corporate governance principles, the supply chain management and procurement practices should be aligned to prescribed legislation to enhance good governance and should demonstrate equity, open and effective competition, fairness, transparency, cost-effectiveness and accountability. Through effective corporate governance, government support for SMMEs can be achieved through sustainable entrepreneurship. Small, medium and microenterprises should acquire the required knowledge and relevant skills to promote the development of SMMEs. The sustainability of entrepreneurial firms depends on the four pillars, namely finance, social impact, government support and environmental index.

Overall, based on the challenges faced by SMMEs in overcoming barriers to sustainability, especially in the post-COVID-19 era, this chapter proposes several government policies for consideration. These policies must encompass the regulatory environment, supply chain management, training and skills transfer, access to finance and management skills. All these policies should be implemented within a regulated entrepreneurial ecosystem that adopts corporate governance principles, which have a social impact and assist in developing stakeholders to sustain their businesses. Centres and incubators, such as universities, manufacturing

advice centres and propellers are essential for training businesses on various corporate governance issues, including procurement practices, planning, risk management, accessing finance, investment and development processes. The recommendations should be directed to stakeholders, including the government, HEIs, entrepreneurs and others.





# Pitfalls weighing down the development of sustainable entrepreneurial governance culture among the South African youths: Eclectic contexts

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## ■ Abstract

While youths from various contexts face a constellation of challenges in economic development across many African countries, their engagement in business ventures is adversely affected. The entrepreneurial culture exhibits a gender disparity, as female youths often find themselves on

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the periphery of entrepreneurial development. This situation stems from a patriarchal cultural framework that places women and girls in a subordinate position to men and boys. The South African government should promote good corporate governance in youth entrepreneurial activities by encouraging financial literacy. The condescending attitudes of many African adults, who view youths as mere children expected to follow the dictates of their adult superiors, have a detrimental impact on the motivation of young people to cultivate an entrepreneurial culture. Moreover, most African educational curriculums suffer from a colonial hangover, remaining unchanged and failing to address the pressing issues that these countries face, such as fostering entrepreneurial motivation among youths. These curriculums are still Western-centric, leading graduates to focus on seeking white-collar jobs rather than cultivating creativity and job creation. The South African government bears responsibility for this issue, as it has inopportunately merged technikons – institutions that offered entrepreneurial-based professions – with other main universities. Furthermore, the absence of a dedicated Ministry of Youth in South Africa hinders the ability to address the needs and affairs of young people, creating a gap that stifles youth entrepreneurship. Many youths also lack entrepreneurial role models, which further entraps them in the pursuit of white-collar jobs and weakens the dynamics of an entrenched entrepreneurial culture. This research urges the government, along with other youth-friendly organisations, to engage in serious discussions about the challenges facing youth entrepreneurial culture in South Africa. The country needs its youth to make meaningful contributions to its gross domestic product and sustainable development goals. This will play an integral role in realising South Africa's vision for 2030.

## ■ Introduction

South Africa is experiencing unfathomable unemployment conditions which are believed to form a fertile ground for higher crime rates (Mazorodze 2020; Tshabalala 2014). The South African economy has, in recent years, continuously performed dismally and subsequently assigned junk status (Karodia et al. 2016). This implies that turning the country's deplorable economic situation can only be a pipe dream unless other strategic interventions are proffered. The fact that more than 34 million people in South Africa receive social welfare grants as their only source of income is something to worry about (Kang'ethe 2018). Strengthening the country's entrepreneurial culture can be a panacea that can save this country from further economic deterioration (Karodia et al. 2016). While these researchers believe the achievement of this hypothesis is not an easy one, they, at the

same time, agree that it is an attempt that will dissuade many school leavers from just looking for a job but assume intrinsic motivation to engage in various entrepreneurial tasks and therefore employ themselves (Barba-Sánchez & Atienza-Sahuquillo 2017). It is such kind of a turning point that will significantly emancipate this country from worries of illusory employment that can never be found (Mseleku 2022). It is pertinently important for the institutions of learning to socialise learners with information about countries such as those of Asia, the so-called Asian Tigers (South Korea, Hong Kong, Taiwan and Singapore) that turned around their countries after taking the route of industrialisation and entrepreneurial engagement at full throttle alongside embracing the adage thinking outside the box (Hauge 2019).

While the above presents aspirations to turn around the South African economy through the entrenchment of entrepreneurial culture, it is also important to appreciate factors that continue to derail the development and entrenchment of the much-desired entrepreneurial culture, especially among the youths of South Africa. The youths face the stringent form of unemployment in the country, making them more likely to engage in various forms of crime that bedevil the country (Mazorodze 2020). Primarily, South Africa has been sluggish in its quest to restructure and effectuate a significant paradigm shift of its learning institutions' curricula after a realisation that the structure was not serving its economy well as it was engineered to meet the needs of its colonial masters (Khuntia & Barik 2019). Besides these administrative reasons, the country needs to own the fact that patriarchy has a huge role in dissuading the youths from adequately engaging in entrepreneurial tasks. The adults take the youth to be like children who need only to engage without questioning the *modus operandi* of events (Kang'ethe 2014a). These scholars are pointing at the perfidy of the condescending attitude that many African parents manifest to their children. Because most children take their parents as role models, it is inopportune that they have lost the gusto to develop outside the initiatives of their parents (Kang'ethe 2014a).

Radebe (2019) laments that although youth entrepreneurship is frequently regarded as a key factor in reducing poverty and fostering economic growth and job creation, the sheer number of young people engaging in entrepreneurship is concerning. Considering this, the study's objective is to assess the obstacles preventing young people from launching their own enterprises. As the poverty of the country has taken a huge toll on women and the girlchildren, it is good to acknowledge a serious gender divide between male and female youths, with the female youths suffering undue gender divide when it comes to issues of entrepreneurship. This divide needs to be closed (Brixiova & Kangoye 2016).

## ■ Pitfalls weighing down the development of entrepreneurial culture among South African youths

While the erstwhile Millennium Development Goal (MDG) (2000–2015) number 3 envisaged achieving gender equality, which cascaded to Sustainable Development Goal (SDG) number 5 in the current SDGs (Kroll, Warchold & Pradhan 2019), the road to gender equality and equity in entrepreneurship especially in the African context is still bumpy and a difficult one (Brixiova & Kangoye 2016). First and foremost, the curriculum offered in most institutions of higher education in African countries such as South Africa suffers some gender inequity socialisation, where some professions such as engineering and medicine attract male children while female children are socialised to take professions such as nursing and education (Mazurenko, Gupte & Shan 2015). Evidently, while most males would take training such as mechanics, women are usually left out to take hospitality-based professional tasks that are usually lowly remunerated (Hiqma et al. 2016). This poses a serious curriculum deficit that the erstwhile MDGs attempted to close in vain. However, there is still doubt whether the current SDGs will make significant strides in reducing the curriculum gender divide (Mazurenko et al. 2015). Inopportunately, practice on the ground proves that gender inequality and inequity that both the MDGs and SDGs have espoused to correct, continue to pose a developmental lacuna to women and the professions associated with women (Kumar et al. 2016).

There is a belief in societies correcting the socialisation that there are subjects in institutions of higher learning that are suitable for males and females. Curriculum gender parity is necessary for the current SDGs that South Africa aims to achieve (Mazurenko et al. 2015). It would be important that different cadres of political leaders should increase advocacy to correct this kind of socialisation. Although not undermining any profession, it is common knowledge that entrepreneurial-based professions such as accounting, medicine, survey, etc. are inclined to offer better remuneration than hospitality-based professions such as nursing and social work that women in South Africa and elsewhere are socialised to pursue (Hiqma et al. 2016).

Although youth entrepreneurship in South Africa is still at extremely low levels since attaining its political independence in 1994 (Wise 2015), a serious gender disparity is apparent, with female youths being consigned to entrepreneurial tasks that make them poor (Privilege, Yohane & Gisele 2019). Inopportunately, they engage in petty trading tasks such as vending foodstuffs, fruits and vegetables in the bus ranks or even hawking

(Bayleyegn et al. 2019). Indeed, millions of young South African women suffer from hunger and unemployment, with their families having to intermittently go without meals (Kehinde, Omotoso & Ololade 2022). The nature of the entrepreneurial tasks they carry is sometimes economically suicidal, with some goods taking the whole day without any meaningful sale. Weak entrepreneurship ventures lead to the embracing of naked poverty (Priviledge et al. 2019). These women need to be inducted into entrepreneurial training that is likely to bear significant dividends. Such training inductions could take the form of training them in bookkeeping and enhancing their ability to source goods so that, in the event, they do not make any sales on them, they can take them back (Sophocleous 2018). The form of credit access is a way of reducing risks and business apathy when the seasons are bad (Sophocleous 2018).

Studies on the state of young women entrepreneurs in South Africa by Chinomona and Maziriri (2015) revealed that women entrepreneurs face daunting challenges in an endeavour to find an entrepreneurial footing. These consist of insufficient resources, discrimination against women, a lack of formal education and training, a barrier to financing and unfavourable views towards tasks associated with entrepreneurship. Several factors have reduced many women to petty and irrelevant hand-to-mouth traders (Bayleyegn et al. 2019; Francis & Webster 2019). Perhaps if such women are motivated and given business training, they could contribute to enhancing the country's tax base and therefore contribute to the country's gross domestic product (Ajani & Gamede 2021). Ameliorating South Africa's ailing economy that is increasingly been placed in the junk status according to global international rankings of economies (Karodia et al. 2016). On the contrary, their male youth counterparts tend to engage in tasks that are likely to bring more money, such as washing vehicles, mechanics, carpentry, masonry, etc. Gender divide and socialisation for males and females to take separate roles, with women taking poorly remunerating tasks, contribute to the feminisation of poverty (Sinden 2017). Gender imbalances are part of social injustice and cause the enterprises of the youths unsustainable. Sustainability can be achieved by addressing gender imbalances and paternity in entrepreneurship by the youth. To address the prior mentioned issues, corporate governance is no exception.

## ■ Role of patriarchy in undermining entrepreneurial culture

Patriarchy may have been a tool used by many traditional societies to paradoxically maintain discipline among children and women and it has succeeded in maintaining law and order in many societies. However, patriarchy

has perfidious and pernicious outcomes that suppress and undermine women's control over their human and economic lives thereby undermining their opportunities to fully engage in an entrepreneurial culture (Mudau & Obadire 2017). Perhaps this is because patriarchy enforces that the youths and women obey the whims and the orders of their superiors without engaging in a debate (Kang'ethe 2014a). In some contexts, the adults have been working with their children as either employees or assistants without letting them understand the dynamics of the business. They still consider them as children or immature adults. This, according to Kang'ethe, presents a lost opportunity for youth empowerment and possible entrepreneurship (Kang'ethe 2014a). This environment is perfidiously exacerbated by the condescending attitude that some adults delusionally hold that their children lack the decisive capacity and have to be controlled or directed by the adults (Kang'ethe 2014a). Research by Pham, Bell and Newton (2019) in Vietnam implored adults to mentor, support and encourage their sons to gain more experience in running their family businesses so that they can take over when their parents are old. This is the mindset that most African adults should embrace so that they can stage and support their children's businesses before the parents start to function perfunctorily because of ageing.

Further, patriarchy sends the message that good youths are the ones who follow the dictates and aspirations of their parents and other adult kin without question. For example, in the case of a family business in some settings, parents stringently deny the children they have employed to engage or make some decisions without the approval of their parental employers. Employment of underage youth is not only an unethical and immoral business practice, but a form of subtle mistreatment that hinders the growth of the younger employees as well as stifles their development in confidence and skills (Harlos 2016). It is this kind of treatment of the children working for their parents' business enterprises that curtails or undermines the youth's capacity to think and try out newer ways of doing things and makes them believe that whatever is good needs approval from their adult superiors (Harlos 2016). The situation has become untenable when the youths become good candidates for the fourth and fifth industrial revolution, having to learn many things that their parents cannot understand (Micheni et al. 2021). They, therefore, need space and motivation to move things in their direction in consonance with current global imperatives. In fact, it is important that adults undergo a paradigm shift to accept that their children upon getting educated can outdo them in managing and running business enterprises. The path of industrialisation and entrepreneurship that transformed the Tigers of the East into entrepreneurial giants should serve as a lesson to African adults to recognise the untapped resources in their youth (Hauge 2019).

## ■ South African curriculum suffers from colonial hangovers

According to Simmonds (2014), inopportunately, South African educational curricula reflect a colonial hangover. The colonised curriculum is perfidious because the colonialists structured it to facilitate the production of workers who were to serve the colonialists (Kang'ethe 2014b). However, it is surprising that even after the first Black government body took over in 1994, the same curriculum continued to serve in the institutions of learning (Khuntia & Barik 2019). Because the situation during the colonial era and thereafter has been different, it is imperative to do curriculum restructuring, panel beating and in some contexts, curriculum engineering. With the current problems bedevilling the country, whether crime, unemployment or overdependence on social welfare grants (Kang'ethe 2018), a deficient educational curriculum cannot escape the blame. Opportunely, albeit gradually, several scholars have been incrementally garnering support for a curriculum paradigm shift that aims to address a range of issues plaguing the country, including unemployment, crime and gender-based violence (Gray, Kreitzer & Mupedziswa 2014). Karodia et al. (2016) believe that there are ills that are weighing down the economy of the country as well as contributing to its current junk status in the global economic rating. The champions of curriculum change, while pioneering in social work, have called for the curriculum to shed its colonial content and become indigenous in order to effectively address local problems with locally developed interventions (Mupedziswa, Rankopo & Mwansa 2019). There is a need for a curriculum that embraces the tenets of the fourth and fifth industrial revolutions, one that is entrepreneurial geared, as well as one that makes the country navigate strongly towards the realisation of South Africa's Vision 2030 (The Republic of South Africa [The RSA] 2012), as well as motivate the economy to make strong strides in fulfilling and achieving the global SDGs (Werneck et al. 2021).

## ■ Poor saving culture among the young entrepreneurs

According to Oliveira and Rua (2018), Vamvaka et al. (2020), Abdullah and Saeed (2019) and other researchers, the intentions of young people have a major and wide influence on their entrepreneurial behaviour when it comes to saving for the future. An alternative perspective posits that entrepreneurial orientation (EO) is not entirely determined by intention alone (Anwar, Thoudam & Saleem 2021; Paço & Ferreira 2013). More so, business lessons are becoming more exact, with many youths seeking extracurricular practices and attending additional classes in different business academies



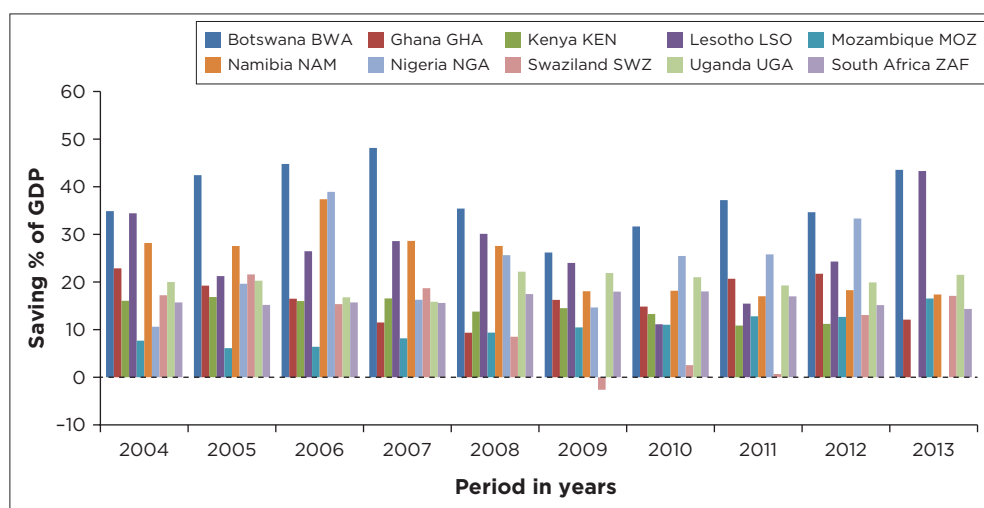
to understand how to win enterprises that are enterprising (Hitka et al. 2021). The critical role of such academies is to foster the spirituality of saving among the youths (Salcedo & Lazatin 2021). Higher education institutions, fortunately, assist students in preparing for long-term entrepreneurial and innovative success as well as helping them form stronger relationships after graduation. However, the lack of financial education or financial literacy exposes youths both employed and unemployed to more risky financial decisions. Inopportunately, many newly employed and unemployed youths accumulate more debts which leads to poor credit scores and face the risk of bankruptcy at a very young age. These behavioural trends show that today's youths do not understand the long-term ramifications of their financial handling behaviour. Significantly, financial literacy is a crucial ability that involves the ability to understand and use financial information as demonstrated by the completion of financial assignments and comprehension tests (Remund 2010).

Roberts et al. (2018) highlighted that in the 2011 poll by the Financial Service Board, 52% of South Africans find it more fulfilling to spend money than to save it for the future. Meanwhile, 56% of the population plans, with 28% of them living for the moment. The findings by FSB clearly highlight that South Africa is faced with a saving problem and as a result, South Africa has been viewed as a country with little or no saving culture (Manyama 2007). Inopportunately, the country has a higher propensity to spend than to save. The outcomes of the studies quoted previously show that the issue of excessive spending and less savings is a worldwide problem. Therefore, it is of paramount importance that efforts and programmes are put in place to ensure motivation to foster a saving culture. Although there have been initiatives both from South African government institutions and the financial sector to introduce programmes to increase awareness of savings, there have been little or no improvements in the savings ratio of South Africans by household income (Manyama 2007).

Opportunately, a country that is focused on growing its economy needs to ensure that it accumulates its assets by ensuring that savings and investments are at the top of its priorities. A high-saving economy expands quicker than a low-saving economy because it accumulates assets more quickly, claim (Lipsey & Chrystal 1995). A country that increases its population's financial literacy levels will ensure that people accumulate more wealth as they will be able to make sound financial decisions. Considering South Africa's low national savings, the re-emergence of a high current account deficit, financed mostly through a volatile portfolio, will re-emerge as the biggest cause for macroeconomic concern over the medium term (World Bank 2011).

Further, a population that saves will reduce the high cost of state social welfare and help to curb the rise in unemployment as more and more people will be contributing to the economic growth of the country which will lead to more job creation. South Africa is not the only country that struggles with low/ or lack of savings. Figure 8.1 compares the different gross saving ratios per percentage of gross domestic product (GDP) for 10 African Countries. Figure 8.1 shows that South Africa is among the least countries that contribute towards savings. As of 2013, South Africa's national gross saving rate as a percentage of GDP stood at 13.5% which has been declining from 18% from 2010.

Figure 8.1 reflects that from 2004 to 2013, South Africa (ZAF) had a model saving frequency of 16% and the lowest saving of 14% in the year 2013 which is worrisome among the South African and Ghanaian (GHA) youths' saving capacity. Youths in Botswana (BWA) and Lesotho (LSO) have a higher saving ratio to their GDP. Inopportunately, youths in South Africa frequently struggle with high debt levels because few of them have adequate knowledge of financial concepts and too much exposure to entertainment and leisure. While parents can have a significant impact on how their children develop and behave financially, they frequently neglect to teach money management skills to their children because of age differences and volatility in the fiscal structures of the country. Importantly, South African youths need to be socialised to exhibit responsible financial



Source: Authors' calculations using data from IMF World Economic Outlook database, 2004-2013.  
Key: GDP, gross domestic product.

**FIGURE 8.1:** Selected sub-Saharan African saving % of gross domestic product.

behaviour by their parents. Antoni, Rootman and Struwig (2019) suggest that financial relationships, parental relationships, financial teaching, financial conflict, financial secrecy, financial behaviour monitoring and financial behaviour reinforcement would assist the youths to improve their money-saving skills. These skills are vital allowing the youths to bootstrap equity for starting enterprises if borrowed equity becomes scarce.

Young people's investment and entrepreneurship are crucial to the maintenance of any nation's growth and development. High rates of saving are a prerequisite for high rates of investment and entrepreneurship (Pelrine & Kabatalya 2005). Therefore, South Africa can increase its economic growth, it needs to foster a culture of savings and increase enterprising and investments. When young employees are encouraged to save as early as possible there will be a great chance that they will contribute towards the growth of the economy. By fostering a culture of savings, South Africa's young people might contribute to helping the country to develop.

The rise in unemployment in South Africa is a concern for many leaders and every citizen of the country, despite some noticeable strides in curbing the rise of unemployment. Some of these challenges can be resolved by the creation of small and medium enterprises and, therefore, a call to rise in entrepreneurship is important so that the creation of companies could help reduce the high rate of unemployment.

There is extremely little entrepreneurial activity in South Africa, according to the Global Entrepreneurship Monitor (GEM) (2005, p. 7). The absence of financial access is one of the main issues identified. Most, if not all, financial institutions will offer financial assistance for start-up capital to a financially sound individual with a good credit score. Lack of good financial management could lead to uncontrollable levels of indebtedness and a negative effect on credit history and credit ratings which could prevent individuals from obtaining financial assistance to start their businesses. Therefore, if youths are not encouraged to contribute towards wealth creation, they will not strive to see themselves as entrepreneurs and those who wish to start their own businesses will struggle to secure financial assistance. According to Bruhn and Zia (2011), a deficiency in financial management skills among the youthful entrepreneurs is a contributing factor to the low rate of new venture development and, ultimately, the high failure rate of small and medium-sized enterprises (SMEs) belonging to the youth entrepreneurs in South Africa. Therefore, it is beneficial for people to learn more about personal finance difficulties so they may assess their options and manage their money wisely to achieve financial security (Govender & Coetzee 2023).

This chapter identified that some Government policies also play a vital role in encouraging or even discouraging savings among the youths

of South Africa. The rise in social needs requires an increase in government expenditure, and there will always be a mismatch between the revenue collected and the required money for government expenditure. For the government to provide service delivery, it needs to generate more revenue, and this is mainly achieved by raising taxes. An increase in taxes will lower the income that could be saved. Some of the savings' pay-outs are subject to taxes and this may discourage people from saving as they may feel that they are taxed twice. Looking at the South African youths based on the Life Cycle Model (LCM), which is more advanced than Keynes's work, it was found that the youths of South Africa are less enterprising than the old people. The LCM is predicated on the certainty of income and makes the assumption that lifelong wealth is a function of ideal consumption. The model considers the smoothing of consumption and saving behaviour by maximising their lifetime budget. The principal goal of this philosophy, according to Ang (2009), is to amass wealth for retirement. According to Browning and Lusardi (1996), the LCM theory dictates that saving should be planned so that, with appropriate allowance, retirement consumption offers the same marginal value as consumption made earlier in life. The main two determinants for savings under LCM are income and age structure.

## ■ Fiscal challenges

Emanating from the issue of saving among the youths, there is a financial crisis that entraps them: Their inability to obtain loans is a hurdle brought on by their lack of credit history and collateral. These elements have a part in keeping young people out of their commercial offerings. Commercial banks typically decline to lend to young people because they view them as hazardous and unreliable. The African Development Bank (AfDB) (2011) reports that commercial banks have noted the following difficulties in financing young people: a deficiency in entrepreneurial skills, a lack of collateral, inadequate risk assessment and inadequate contingency planning. These issues have led to low rates of loan repayment and business success.

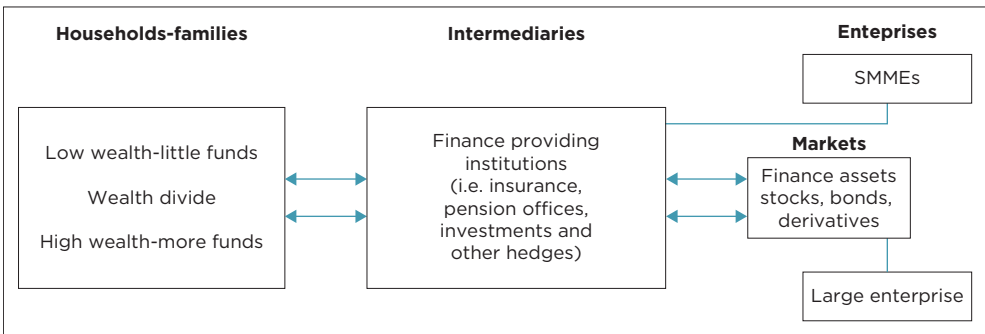
Building equity seems to be the young people's biggest obstacle, and equity is one of the key components of corporate success in South Africa. Nonetheless, it is thought to be vital to encourage recent graduates to launch their own enterprises so they can provide jobs for others as well as for themselves rather than merely searching for one (Beck & Demirgüç-Kunt 2005). The twin challenge is entrepreneurial information resources. This is especially very important for new business entrants.

For young entrepreneurs in poor nations, particularly in Southern Africa, funding is a true tug of war. Emerging enterprises face difficulties as a

result of the banks' unfavourable monetary policies, which essentially control the business climate (Parsons & Krugell 2022; Roberts 2008). Young entrepreneurs also face numerous obstacles in their quest to realise their business goals. Many business ventures that could have produced jobs, provided a means of subsistence and indirectly fostered growth are often abandoned. The authors aim to investigate the challenges young entrepreneurs in South Africa face when launching a business, drawing on their firsthand experience with the struggles caused by a lack of capital, the loss of viable ideas and limited resources (Bushe 2019).

According to Audretsch et al. (2002), an entrepreneur is able to identify an invention's marketing potential and arrange for the money, skills and other resources needed to transform it into a commercially successful innovation. The term 'entrepreneurship' became more widely used in the 2000s to refer to not only investing but also the process of finding, evaluating and seizing an innovative opportunity that is judged feasible and can result in the creation of new goods or services and financial gain (Brush et al. 2003; Shane & Venkatraman 2000). According to Deakins and Freel (2009), this growth also included other entrepreneurial endeavours like social, political, intellectual and even intrapreneurship. The youths' entrepreneurship can come up with the following paradigms if properly governed.

Figure 8.2 describes the emerging funding processes of youth enterprises from households which are either of low or high wealth status. Depending on the nature, style and form of value, the family attests to the enterprises owned by the children. Households will turn to financial intermediaries like banks, insurance firms, mutual funds, pension funds and hedge funds if they are unable to make ends meet with their savings. Under these financial intermediaries, there are small, micro and medium-sized intermediaries which can provide the youths with the possible



Source: Adapted from Allen and Gale 1999, p. 1240.  
Key: SMMEs, small, medium and microenterprises.

**FIGURE 8.2:** Emerging funding methods of youth enterprises from households.

capital funds they need for business start-ups in South Africa (Magocha 2014). As reflected by Figure 8.2, the youths will resort to intermediaries if they want to start a small firm, but when they want to start a large firm, they might need to approach the financial markets for stocks, bonds and other business finance derivatives (financial instruments whose value is based on interest rates, underlying assets, indexes or other financial factors) such as future contracts, options, swaps and forwards. Tagoe (2016) urged young entrepreneurs to also finance their businesses using financial derivatives sustainably which are traded on financial markets and are used for several things, such as enhancing investment strategies, managing risk and speculating (Hazen 1991). All the finding processes of businesses at all levels are based on principles and regulations of corporate governance (Hansen 2021).

## ■ Enhancing youth entrepreneurial culture through a Jingoistic approach

Jingoism is the aggressive nationalist mindset or the unquestioning faith in the goodness or righteousness of one's own country, culture or group just because it is one's own (Britannica, The Editors of Encyclopaedia 2019). The word is similar to patriotism in general. A nationalistic attitude is needed to create a young entrepreneurs' culture in South African youths. This study adopts the concept of jingoism as an EO that highlights the patriotic and nationalistic qualities an entrepreneur must embrace for enterprise to lead to sustainability. Nationalism, or allegiance to one's country, and patriotism, or love of one's country, are sometimes conflated; however, patriotism predates nationalism by more than 2,000 years, having emerged in the eighteenth century. Gwilliam (2021) in proving patriotism or a jingoistic mindset of entrepreneurship attested that George Jenkins, a 22-year-old man, lived during the Great Depression. Jenkins managed a Piggly Wiggly in Florida before leaving to start his own chain of supermarkets nearby. Not only did the store survive, but it expanded to become the 1,000-store Publix chain (Gwilliam 2021). Adamson's (2015) statement that entrepreneurs and their small enterprises are responsible for almost all economic growth in the United States was derived from then-President Ronald Reagan's pronouncement encouraging American youth to maintain the entrepreneurial spirit. African leadership can also motivate the youths to keep the spirit of entrepreneurship cum instilling the spirit of responsibility, fairness and accountability in entrepreneurial activities.

The implications of inculcating a jingoistic mindset in South African entrepreneurs could be strengthening the entrepreneurship culture in South Africa increasing the possibility of generating revenue for the government through taxes and other forms of contributions to the economy.

New kinds of loyalty that are based on human rights respect, tolerance for ethnic and cultural differences, and universal values all of which are essential components of corporate governance have been founded by more compassionate viewpoints on jingoism or patriotism. Citizens in jingoistic democratic countries typically have a strong sense of loyalty. According to jingoistic orientation, modern societies are highly pluralistic, which could lead to conflicts and tensions among residents that could topple the government. Modern democratic South Africa, however, is dedicated to a degree of equality. According to Seopetsa (2020) that depends on people's willingness to give up something for the greater good, such as daily income redistribution to satisfy the requirements of the economy or welfare through enterprise. Youths' entrepreneurial activities can achieve the greatest good and maintain sustainability goals if they happen to rope in good corporate governance practices in their operations.

## ■ Sustaining youth entrepreneurship culture in South Africa through good corporate governance

The phenomena of small, medium and microenterprises (SMMEs) being individualistic, phobic of succession, fearful of change and autonomous EO, are very common. Magocha (2022) posits the need for an SMME to be autonomous. This is the condition of a self-sufficient and autonomous SMME; it is the capacity of an individual or group of entrepreneurs to develop a strategic plan, vision and mission and see it through to completion. Overly strict organisational restrictions do not impede autonomy; rather, in our instance, SMMEs in Africa are undermined or weakened by inadequate corporate governance frameworks. This autonomy seems to have face validity, especially in large organisations, according to Lumpkin and Dess (1996, p. 21). Researchers relate it to tiny enterprises and find statistically significant effects. According to key informants in a Magocha (2022) study, autonomy is centred on an individual's or team's independent action towards accomplishing the enterprise's strategic goals. When we talk about autonomy in entrepreneurship, we mean the ability to act without interference from the government.

Magocha (2022) adduces the thesis by claiming that a number of elements, including the legitimacy and competence provided by South Africa's legal, economic, social, political and technological domains, influence the autonomous behaviour of young people who aspire to be entrepreneurs. Autonomy as an EO was attested to among the youthful respondents as being a quintessential determinant factor in SMMEs. According to Motha and Nenzhelele (2018), obligations imposed by the entrepreneurship associations such as National Youth Development



Agency (NYDA), Youth Business South Africa (YBSA), Junior Achievement (JA) South Africa, South African Black Entrepreneurs Forum (SABEF) and Silicon Cape Initiative, etc. and other regulatory statutes tend to limit the young entrepreneurs' performance. The obligations passed and they do not incorporate training the youths on skills of corporate governance. From the associations and regulatory statutes, the youths are only provided with financial support and word-of-mouth support which stands to be highly subjective and difficult for the youths to implement in their enterprises (Pham et al. 2024).

A board of directors, although uncommon in SMMEs, is ideally positioned in a successful entrepreneurial environment to oversee sound corporate governance, including the promotion of a positive company culture. While this may seem reasonable in theory, abstract concepts like culture can be challenging to define and even harder to implement in practice (Price 2018). Apart from that, there are issues on how to apply corporate governance and culture to sustainable SMMEs owned by young people in South Africa, as well as how to track and measure corporate governance and culture. As if this problem is not enough, South Africa has a weaker business culture, especially among the youth. A weaker business culture has serious consequences on the sustainability of the SMMEs and their related benefits to the economy. Price (2018) advocated that the owners of SMMEs were linked to that leadership which was observed to be mainly parental and patriarchal in a few South African SMMEs with a lack of succession and good corporate governance cum corporate culture (Alhassan & Sakara 2014). Importantly, the Board of Directors, be it at the family business level, must consider succession planning for the chief executive officer (CEO), who, in this chapter, is being used in tandem with the SMME owner as part of their oversight of corporate culture (Bushe 2019). The CEO position has a crucial role in good corporate culture. This is because when a CEO is fired, dies, fails or resigns, the business is more likely to crumble. Imperatively, the board nominating committees have to take previous performance, industry experience and public image in relation to cultural growth into account while reducing the pool of potential candidates for CEO. It will be easier to preserve the company culture in the event of anticipated or unanticipated leadership changes if culture is given significant consideration during the selection process. If these problems are not resolved, a business may eventually collapse.

The lack of cultural jurisprudential capacities of the parents when it comes to empowering the youths in entrepreneurship activities is very common in African businesses (Adegbite 2022). The businesses are in the cultural jurisprudential capacities of the parents who control children's businesses without implementing corporate governance principles. Parents often make it taboo to discuss succession in the business with their children,



let alone teach them business principles. As a result, they hinder the sustainability of enterprises from the youth. Nkuah, Tanyeh and Gaeten (2013) grieved that the SMMEs are mostly individually owned, either from equity (the amount of money that a company's owner has put into it or owns) in most cases raised from pensions or through the sale of other household property like domestic animals or even after lobola payment. Only the sole SMME owner has a right to everything, ranging from control of profits or accountability of losses. The children or any other external party who wants to get involved in the business will be considered greedy or an intruder who wants to unlawfully enrich himself or herself inappropriately (Dolan & Rajak 2018). Even if the children ask about succession, they are considered to have crossed the taboo line. This is usually why most of the SMMEs close off in a few months after the death of the owner. When the owner dies, conflicts and feuds may ensue, usually because of a lack of succession and other good corporate governance principles as well as a lack of proper inheritance cum signed wills in the SMME control and ownership. Another factor that weakens SMMEs is that there is no support system where everyone can improve or maintain their well-being, equity and inclusiveness. This means that in policymaking, all members of society, particularly the most vulnerable, are considered, and no one feels alienated, disenfranchised or left behind.

To understand the above organisations succinctly, a discussion about them follows: NYDA is a South African government organisation that emphasises the development of youths. They provide young entrepreneurs with a range of services and resources, such as funding, mentoring and training. The major challenges are among the skills they provide, while good corporate governance is the list offered. In their evaluation of mentoring outcomes from the viewpoints of small business owners and entrepreneurs in South Africa, Kunaka and Moos (2019) found relationships between the different mentoring outcomes, including knowledge transfer, entrepreneur resilience, skills transfer and business outcomes.

Furthermore, it was found that mentoring outcomes like skill transfer and entrepreneur resilience are independently attained as the relationship progresses through the various stages of initiation, cultivation, separation and redefinition. In essence, there are few entrepreneurs who successfully achieve the status of being mentors. This situation needs to be improved by creating an awareness of mentoring advantages and endorsing how mentoring can serve as a powerful support system for young entrepreneurs. Dzomonda and Fatoki (2019) argue that higher education institutions in South Africa are important in empowering and raising youth awareness of entrepreneurship considering this unsatisfactory situation. Opportunely, universities are sporadically located across every province in South Africa

and can take part in teaching local youths about entrepreneurship and its concomitant benefits.

Stephanou and Rodriguez (2008) propagate that for young entrepreneurs in South Africa to be sustainable in entrepreneurship, there is a need for bank financing. Youth Business South Africa is a member of the international Youth Business International network and like NYDA, it offers mentorship, training and resources to help young entrepreneurs launch and expand their businesses. The only difference between these organisations is based on the geographical coverage of youth demographics. Youth Business South Africa covers at international level and the former covers at national level. There is also a nonprofit organisation in South Africa, Junior Achievement South Africa (JA SA) which is dedicated to the education and development of young people. The organisation is a member of the international JA network, which has operations in over 100 nations and a mission to uplift and equip the youths for success in the global economy. The main goal of JA South Africa is to deliver the knowledge and abilities necessary for the youths to thrive in the business world and life at large. To this end, the organisation offers a range of educational programmes and initiatives that support financial literacy, entrepreneurship and preparedness for the workforce (Dzomonda & Fatoki 2019).

## ■ Conclusion

The study concluded that corporate governance may possibly promote the sustainability of young entrepreneurs' activities. The activities need to be supported by good corporate governance skills such as financial planning, financial saving succession planning and entrepreneurial regulation. Indeed, there can be no light at the end of the tunnel in the South African employment situation if the youths are not motivated to engage in good corporate governance and sustainable entrepreneurial endeavours. The unfathomable unemployment statistics that the country is experiencing prove dire. The youths need to move towards becoming their own employers and self-reliant by being professionally socialised and cultured to undertake entrepreneurial tasks towards self-employment and self-sustainable. The institutions of learning need to prepare the learners to engage in entrepreneurial activities which include corporate governance, innovation and resilience earlier enough. The Ministry of Education needs to engage in a process of curriculum autopsy and rid the curriculum of the content that is reflective of the colonial hangovers. The blame is being alleged on the government for taking too long to launch a curriculum overhaul that will see it addressing the challenges bedevilling the country such as high rates of youth unemployment. Optimistically, increasing the number of youths

engaging in sustainable entrepreneurial tasks embedded in corporate governance such as running and managing morals and financial transparency.

## ■ Recommendations

Accordingly, the study recommends that the contributions of youths' SMMEs emphasise a jingoistic approach and link it unconditionally to the framework of good corporate governance. This emphasis would encourage SMMEs to operate sustainably, making the culture of good corporate governance key to the macroeconomic growth of future South Africa. Even in situations where the entrepreneurial culture is strong, the expansion of SMMEs would be hindered if the necessary framework conditions are not in place. The implications for policy indicate that to ensure young people's businesses grow beyond their initial stages and advance to higher-value endeavours, it is imperative that the government, regulatory authorities and other institutions provide enterprising youths with training and technical assistance. The government, youth associations and supportive institutions need to create innovative funding sources and policies that consider the unique characteristics of young people, such as their higher risk tolerance, inventiveness and information and communication technology (ICT) usage, while also enhancing the regulatory environment. Supportive policies combined with an entrepreneurial culture aimed at promoting accountability and transparency can only be achieved through effective corporate governance. The study also highlighted how unfamiliar young South African business owners are with the requirements for launching a company or securing financing. Additionally, they lack awareness of the resources and institutions that can assist them. Therefore, it is recommended that a training programme in good corporate governance with a clear goal be established. Reforms aimed at improving transparency and accountability, along with the provision of financial services, are essential and cannot be overemphasised, especially given the high perception of corruption and restricted access to finance in the economy.

# Financial governance practices and sustainable development of small, medium and microenterprises

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## ■ Abstract

Corporate governance practice in organisations has become common in recent times, and its importance is evident among small, medium and microenterprises (SMMEs). The reason for the broad interest in corporate governance is its ability to underpin the company's operating framework which enhances sustainability, especially in the long run. While SMMEs play a noteworthy role in economic and social growth, job creation,

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market competitiveness and poverty reduction in developed and developing economies, their contribution is however deterred by several factors which include globalisation, trade liberalisation and domestic competition, which by their size and nature are outweighed in competition. In addition, they are not exempted from the global economic and financial turmoil which continually occurs, forcing them to adjust their financial needs to accommodate such unstable occurrences. While the promotion and success of SMMEs are of paramount importance because of their substantial contribution, their failure rate remains significantly high, especially in Africa. Studies have pointed out poor financial governance as one of the major causes of SMMEs' business failures, poor survival rates and low growth prospects. Good financial governance ensures the business' continued viability, leading to high profits that increase shareholders' wealth. The dimension of financial governance includes liquidity management, cash flow management, asset acquisition, funding, capital structure, dividend policy and investment appraisal techniques, among other elements. However, studies have not found specific solutions on the types of financial governance elements and practices that need more attention in Africa. This chapter concludes that good financial governance is directly linked to growth and sustainability of SMMEs. Therefore, it is recommended that SMMEs practise good corporate governance by clarifying the role of owners, managers and financial directors.

## ■ Introduction

The adoption and implementation of corporate governance among small, medium and microenterprises (SMMEs) can have a positive impact on current and potential investors. Good practices tend to protect and equitably reward shareholders by increasing the firms' profitability and market share. Corporate governance is explained by rules that define the relationship between management, stakeholders and the board of directors in a company. At its preliminary level, corporate governance digs into concerns resulting from the partitioning of ownership of entities and control. However, in its broad aspect, corporate governance goes beyond solely creating a relationship between investors and managers (Castrillón & Alfonso 2021).

The SMMEs are the pillar of economic output and growth, being considered an economic engine for inclusive growth and development in many countries (Bhorat et al. 2018). There also exists unanimous agreement among the researchers that this sector is also crucial for employment, poverty alleviation and inequality reduction. Despite their significant economic contribution, several occurrences in particular financial governance practices and lack of

sound corporate governance in the SMMEs have negatively impacted their growth, performance, survival and sustainable development. Notwithstanding their participative role in the economy, it is of concern that SMMEs severely struggle in their operation and fail within a few years after being established (Mudara & Mafini 2022). Small, medium and microenterprises' growth, profitability and development are severely threatened by several aspects, such as poor planning skills, inexperience, deficiency in technical knowledge, poor corporate governance, lack of market research skills and poor management skills. These are viewed as the main challenges hindering the success, development and sustainability of SMMEs, especially in developing countries. Common hindrances in the operations and management functional areas include the financial governance of the business. The coronavirus disease of 2019 (COVID-19) has added to these problems causing remarkable disruptions in the global business, with SMMEs particularly bearing the most outcomes and in some instances, facing closure.

Small, medium and microenterprises' performance in the long run remains a substantial challenge (Bhorat et al. 2018). Their sustenance and development are often challenged by environmental competition, unfriendly business environment, government laws and regulations and the prevailing countries' economic status. The challenges also differ between developed and developing nations. Generally, in developing nations, meeting both regional and international competition from well-founded businesses remains vital. Tshuma (2022) also noted that unsuitable policies and other restrictive policies in poor countries deter the success of SMMEs.

Several studies have been carried out on SMME development, both in developed and developing countries. These studies have taken various focuses and directions. Some focused on SMME development (Lichtenstein 2018; Rogerson 2008), and some on their survival and operations (Adam & Alarifi 2021; Dubihlela & Sandada 2014). The other branch of studies investigated the link between firm performance both financial and non-financial, and viable priorities (Chakabva, Tenengeh & Dubihlela 2020). These studies have made meaningful contributions to the body of knowledge. However, despite the unanimous agreement that SMMEs play a significant role in the economies' performances, many are still troubled by poor financial and corporate governance (Tharmini & Lakshan 2021). This chapter will focus on the financial governance practices and sustainability of SMMEs.

## ■ Small, medium and microenterprises development in South Africa

Small, medium and microenterprises have a significant impact in spearheading inclusive growth and development and in the elimination of income poverty and unemployment in South Africa. According to Kalidas, Magwentshu and

Rajagopaul (2020), SMMEs employ between 50% and 60% of the country's workers when considering all sectors. In the National Development Plan (NDP) (2011), the government highlighted the SMMEs' importance in several dimensions, with the intent that 90% of additional jobs will be produced by SMMEs in South Africa by 2030 (Bhorat et al. 2018). Despite the remarkable economic contribution of SMMEs, they, however, continue to be shadowed by larger businesses, especially with regard to innovation. Bushe (2018) asserts that over 70% of SMMEs fail in their first 5–7 years of inception and this can be attributed to inadequate levels of innovation and governance among these firms. According to Timmis (2022), the post-COVID-19 recovery of SMMEs can be spearheaded by embracing technology and reigniting the entrepreneurial spirit among South African small firms.

In South Africa, the historic challenges such as poverty, high unemployment rate and inequality have continued to define the country. Furthermore, economic growth has been lagging because of the slow recovery from the 2008/09 global financial crisis. During the global financial turmoil of 2008, SMMEs experienced substantial job losses and revenue decline (Kalidas et al. 2020). After the crisis, the economy moved slothfully and was coupled with several ratings downgrades which continuously posed a negative effect on small firms. With an already slow-growing economy, further shocks from COVID-19 exerted further pressure on the SMMEs operations, and this was fueled by the governments' lockdown regulation which negatively affected the revenues in many SMMEs (Kalidas et al. 2020). In addition to lockdown regulations, many SMMEs encountered a remarkable drop in demand for their products, signalling a steep decline in their revenue, profitability and confidence.

In South Africa, SMMEs play a significant role in marginalised and rural provinces. The firms' attributes, based on their location, are critical in South Africa given the country's historical background of segregation, where rural marginalisation was promoted (Stull, Bell & Ncwadi 2016). The SMMEs system favoured urban firms compared to rural firms and the trend is still significant to date (Zhou & Gumbo 2021). The firms in urbanised regions operate on better access to infrastructure, raw materials, credit and demand to drive growth than those in rural areas. With this setup, urban SMMEs are bound to have better chances of survival than those in the rural setup.

There is evidence of the results of corporate governance on the operation of the firms. Early studies propose that extreme levels of corporate governance may dim managers' earnings operations and the habit of cheating, which leads to elevated levels of information. In SMMEs setup, the board, workers and owners often overlap, and the motivations to disclose information differ across stakeholders (Kindstrom, Carlborg & Nord 2022). Consequently, the model of corporate governance of SMMEs differs from that of large entities.

## ■ The concept of financial governance

Financial governance is a factor of corporate governance. It is a concept that involves planning, organising, handling and controlling the finance and investment activities of a business, big or small (Grozdanovska, Bojkovska & Jankulovski 2017). Alnaqabi and Nobanee (2021) extend the definition by including financial budget, controlling and implementing financial strategies. On the other hand, Rahmah and Peter (2024) suggest that financial governance practices involve the ability of management to manage credit risk, budget and working capital of the business. Financial governance can be viewed in terms of the use of capital in achieving business goals. To curb the risks of bad debt and bankruptcies, businesses must have proper information on customer financial position, credit score history and changing payment patterns, which is often lacking among SMMEs.

According to financial governance practices, a company performs well if it makes greater use of its assets compared to its competitors (Morara & Sibindi 2021). A good financial governance system indicates the overall health of the business and relates to how efficiently management makes a profit by utilising all available resources. In addition to the company's available resources, efficient governance of working capital is essential for generating positive returns, profitability and a higher internal rate of return. There is a close link between the performance of the business, financial governance and the overall corporate governance. Good governance of these leads to the sustainability of the business. Also of no doubt, good governance leads to significant sustainable development, a factor needed in most entities especially the SMMEs.

Proper financial governance also ensures compliance with business and government regulations, effectively setting financial goals, controlling the flow of funds and properly utilising financial resources. Financial governance allows businesses to plan, engage in projects, acquire future financial realisations of capital and maximise the return on investments. The main objective of a financial manager is to maximise profits, develop a sound capital structure and ensure the safety of investments. It is also crucial to make efficient use of all the available business resources before engaging in external sources like an overdraft or a loan.

The other dimensions of financial governance include:

- *Investment decisions*: both in fixed and in current assets
- *Financial decisions*: relates to the expansion of funds from various sources and time of financing
- *Dividend decisions*: the allocation of net profits to shareholders and retained profit, depending on the potential of earning, shares market price, shareholders' expectations and the provision of optimal usage of the funds.



Financial planning forms the first phase of financial governance as it determines the direction of the business and is a determining factor in the company's profitability. It oversees the general financial operation of the business and provides a signal to management as to when funds will be needed and how much of the funds. The principal financial planning endeavours involve income forecasting, determining financial resource requirements, cash flow forecasting and profit and dividend planning. Financial planning assists in predicting future financial results and will advise the business on the best way to use the financial resources to achieve future goals. The term financial governance is broad in that it covers the planning of raw materials usage, products to be produced, prices and marketing. In recent business setups, finance software tools assist with financial analysis and help business owners forecast, assess scenarios, and analyse market data and trends. With the use of software, more informed planning and decisions are made which facilitates business growth. In addition, planning, especially for small firms, helps in the establishment of the vision and the goals of the firm (Marushchak et al. 2021). However, SMMEs usually face challenges when it comes to software use, and this deters their financial progress.

The finance department is, in most cases led by the chief financial officer (CFO), who takes care of the financial management responsibilities like keeping accounting records, borrowing money, paying dividends, purchasing assets, selling shares, proposing strategic directions and analysing the company's strengths and weaknesses (Dubihlela & Sandada 2014). The duties of the financial managers occasionally differ according to the objectives and the human capital structure of the business. As the financial records are kept by financial managers, this also helps the organisation in making critical financial decisions. Other financial activities include the securing of funds (debt or equity) as well as the use of those funds by applying general management principles. Investing activities include deciding on which investment projects would be undertaken by the business operations within the limitation of available funds and resources. These important and key financial functions of any organisation are normally monitored by financial managers with the intention of aligning decisions and yielding good financial management decisions. In SMMEs, it is often difficult to assign a financial manager; rather, these duties are commonly performed by the owner.

Good corporate governance in the organisation leads to an improvement on the part of financial management. Rahmah and Peter (2024) concur that an organisation's success in finance depends on the management's efficacy and innovativeness, together with its compliance with the principles of corporate governance. The improvement in the company's financial

performance comes because of enhanced disclosures to protect stakeholder interests. The core is that, in cases where the company's corporate governance is in order, this trust is then created between the company and all stakeholders. As a result, in the SMMEs, corporate governance improves their capability to access funds by establishing investment opportunities on a long-term basis.

In the modern business competitive world, many SMMEs face the risk of financial distress and insolvency. Prime to the causes of financial distress could be intra-organisational factors such as company characteristics and inadequate financial skills. To amend this, the adoption and implementation of corporate governance among SMMEs can have a positive impact on financial standing. Good practices tend to protect and equitably reward shareholders by increasing the firms' profitability and market share (Castrillón & Alfonso 2020).

## ■ Results of good financial governance

Good financial governance in any organisation will not only enhance sustainable growth and development in the firms but also bring about other benefits as shown in Table 9.1.

Literature related to financial governance practices suggests that implementing these practices can benefit business growth. The advantages of strong financial governance contribute to sustainable growth among SMMEs.

**TABLE 9.1:** Benefits of financial governance.

Resultant benefit	Benefit narrative
Minimisation of errors	Financial errors have a devastating effect on a business, particularly the SMMEs and emerging businesses. The development of financial governance software has substantially assisted in reducing errors. This helps businesses improve their cash flow, organise records and do proper planning, and forecasting. This reduces the chances of inaccurate audits and lowers business liabilities (Kroon, Alves & Martins 2021)
Ability to measure growth	Proper financial governance provides good foresight to measure and forecast profits and growth and this is particularly important to small businesses (Chakabva et al. 2020)
Improved compliance	Accounting standards may change, and good financial governance accounts for these changes and prevent mistakes. Keeping legal compliance with finance laws, businesses enable one to be able to immediately see how changes will impact their organisation (Kroon et al. 2021)
Data and financial transparency	Financial governance helps to assess the departments' efficiency and their effect on the firm's financial stand. Transparency improves overall financial complications and fraud (Morara & Sibindi 2021)
Improved productivity	Among the SMMEs, resource constraint is often a major issue. Good financial governance skills reduce mistakes and finance departments can make decisions and act faster (Marushchak et al. 2021)

Source: Author's own work.

Key: SMMEs, small, medium and microenterprises.

## ■ The need for a theory of financial information and sustainability

There is a need for the theory focusing on financial information to accomplish a reasonable blend between financial information goals, financial information outcomes and sustainability. A financial information theory provides a system of thoughts that explain financial information targets, outcomes and processes leading to business sustainability. These ideas can strengthen the current ideal discussions in the literature on financial information (Ozili 2020). Financial information principles also give a combination of principles where the application of financial information makes it possible to reveal improper trends in financial material practice. This could stimulate more research to strengthen the knowledge of the divergences that occur in practice. Moreover, in problem-driven and solution-based research, studies frequently use one or more theories to investigate a problem with the aim of providing a solution. This implies that the theories focusing on financial information problems may contrast with the theories when it comes to their resolution. Likewise, the theories that aim at distinguishing the recipients of financial information may be different from those for the approach and financing of financial information activities. The main goal behind each theory is to help explain a given phenomenon.

## ■ Theories on beneficiaries of financial information

Diverse philosophies and viewpoints exist on the recipients of financial data. Some studies claim that the impoverished are the primary receivers of financial information (Bhandari 2018). On the other hand, others see women as the beneficiaries (Ghosh & Vinod 2017), while another group of researchers suggest that the whole nation and the financial organisations are receivers of financial information (Mehrotra & Yetman 2015; Ozili 2018). Besides the women and the poor, there exist other likely receivers of financial information who have been neglected in the writing such as the youth, the elderly, the institutionalised, the disabled and those persons who were detached from the financial sector because of committing financial offences. This section looks into four theories that explain the beneficiaries of financial information.

### ■ Vulnerable group theory of financial information

This theory of financial information shows that financial information programmes in any society must focus on the marginalised in society who are always victims of financial and economic hardship and crises. This included the elderly, poor, women and the youth (Xiao & Tao 2022).

This premise further claims that helpless people are most frequently disturbed by financial disasters and economic downturns. It is, therefore, most reasonable to bring these disadvantaged people and absorb them into the proper financial sector. This is possible through government-to-person (G2P) public cash transfers into the proper accounts of the at-risk people. This is achieved by considering G2P cash transfer payments for the marginalised. The vulnerable population is further encouraged to become part of the official financial sector and open their own formal account. There is a need to increase the knowledge of financial information for disadvantaged and vulnerable groups in society. In instances when the social cash transfer system is working well and various means for realising financial information are made available to poor people in society, this makes them feel the compensation for the income inequality affecting them. This gives them the possibility to get closer to other societal segments. This theory implies that financial information should be primarily targeted at defenceless people in society (World Bank 2020).

## ■ Financial literacy theory of financial information

Financial literacy theory of financial information stipulates that financial literacy can increase people's zeal to be part of the formal financial sector. The theory argues that financial information is possible through education which stimulates the financial knowledge of the citizens. In times when people are financially literate, they tend to seek formal financial services. In such cases, the need to increase financial literacy among SMMEs to increase their sustainability and survival cannot be overemphasised.

## ■ Public money theory of financial information

The public money theory of financial information stipulates that financial information programmes should be funded using public money (e.g. taxpayers' funds). This theory is of the view that financial information programmes need to be funded from the government budgets. There are grounds that national funding for financial knowledge is faster growing than private funding (Fornero & Prete 2023). With the involvement of government funds in SMMEs, most of them will have their survival and growth enhanced.

The public money theory does have some merits and demerits. The advantages of this theory incorporate the following. Firstly, the government of the state can tax the affluent to obtain funds for the programmes for the benefit of all. This action will facilitate income redistribution and act as a means of reducing inequality. By this, the poor vulnerable segment of society will be absorbed into the financial system. Secondly, there is minimal cost in increasing government funds to fund financial information programmes. This means that there are cost benefits in the implementation. Thirdly, by merely funding the

financial information programmes using public money, there is the avoidance of self-interested people from averting the financial information data for their own private and selfish benefits, which in most cases results in high inequity (Ozili 2020).

The theory goes without demerits. Firstly, poor and insufficient planning is an outstanding problem in most public funding. This inadequate planning can, in most cases, lead to overspending which ultimately can lead to inefficiency and waste. Secondly, the use of public money to finance financial information programmes is prone to delays through bureaucracy in reaching the targeted marginalised population. The delays further originate from lobbying and political events. Thirdly, most governments have deficient funds, and this will pressure them to increase debt to fund financial information programmes. This will fuel the debt load of the government and introduce several economic problems. Finally, the wrong delegation of power may arise when the task of getting financial information is assigned to an incapable institution, which is the norm in most governments. In most cases, governments frequently make one of its capable bureaus responsible for achieving its financial information goals instead of establishing a new agency. Frequently, the appointed agency will have its statutory duties and may be loaded with the extra task of promoting financial information (Ozili 2020).

## ■ **Intervention fund theory of financial information**

This theory argues that financial information actions, together with its programmes, should be financed purely from special interventions by various funders instead of making use of taxpayers' money. This kind of financial support can aid SMMEs to remain out of control by the government. It attests that several funders exist, which include non-governmental organisations, philanthropists and foreign governments. In most cases, these funders often support comprehensive development finance programmes for the international population. In some economic systems, cross-border funding has a sizable share of financial information funding, and much support has been given to microfinance institutions. Specific funders can choose the financial information programmes they desire to fund to completion and will furnish the 'intervention fund' required to reach the desirable financial information objectives.

The intervention fund theory of financial information has some merits. Firstly, it bypasses the accustomed political bureaucratism associated with apportioning public funds for public projects. Secondly, the peculiar funders may organise capital and human resources, both locally and worldwide, to aid them in accomplishing the needed financial information objectives. Thirdly, specific funders may make up new institutions that support development to

assist them in accomplishing the desired financial information objective. Ideally, these institutions will be in the community to back up development even after the financial information projects are accomplished (Ozili 2020).

This theory has some demerits. Firstly, under this theory, particular funders may need to build a method to ascertain the part of the population that is omitted from the formal financial sector. Secondly, the system used by specific funders to determine the members of the population that are financially excluded may inaccurately and incorrectly identify the unit of the population. This may cause misappropriation of the designated funds. Thirdly, using intervention funds from abroad governments or overseas donors to fund growth projects in a nation can harm the reputation of a country as it indicates that the government is unable to use its private funds to spur development for its particular citizens (Ozili 2020).

## ■ Financial governance and small, medium and microenterprises

Financial governance is considered the most significant management skill for an SMME because of its effects on the overall functioning of the business (Chakabva et al. 2020). It also forms part of the crucial components in the sustainability of SMMEs. In other words, excellent financial governance is a significant factor for the survival of these firms both in the long and short run through minimisation of costs, planning and controlling the financial assets of the firm. Prevalent among the SMMEs are poor accounting and financial governance in terms of keeping records, efficient use of accounting information, and the quality and reliability of financial data.

The frequency of inadequate financial governance options can be attributed to SMMEs' failure. This is because, in most SMMEs, the owner runs and controls all aspects of the business including the finances. The owners are usually not all-rounders in the running and management of the entire business but lack adequate knowledge and proper training to do the business' financial governance practices. This results in improper employment of funds where insufficient time is given to the analysis of any financial transaction. According to Erskine and Young (2020), SMME collapses have been ascribed to the failure of financial managers to plan and control the available funds. In the same way that financial governance practices are significant to large and multinational companies, they are also important for SMMEs. The necessity of hiring qualified financial managers with proper accounting records and practice warrants the sustainability and growth of SMMEs (Enaifoghe & Vezi-Magigaba 2022).

Technology is replacing most conventional accounting functions (Kroon et al. 2021). There is a significant shift from traditional spreadsheets

to automation solutions and digitised methods. This transition is placing excessive pressure on financial managers and business owners responsible for managing the finances of their organisations to keep up with new technologies and skills. As a result, these SMMEs lag in terms of financial innovation and adaptivity. For these managers to remain competitive, they must be up to date with the new technical and analytical skills needed in the new markets in terms of reporting and providing real-time data. However, data handling is still a challenge for financial managers among the SMMEs.

The SMMEs lack financial support from well-established and accredited finance providers. The reasons for not accessing such support include not qualifying and lack of awareness of the opportunities and information needed to apply. In addition, a lack of financial, operational and strategic structures hinders the SMMEs from accessing finance and making the competent use of existing capital to boost their operations. Also, the lack of ability and capacity in accessing finance and credit are the critical hindering factors in business ventures. This is a critical impediment to SMMEs' growth, particularly in developing economies (Chakabva et al. 2020). One of the major factors cited is that banks see it challenging to gauge whether SMMEs can pay back their debts on time. As a result of the credit crunch, regulators across the world are enforcing stringent capital adequacy requirements, which leads to an increasing reluctance to give to the personal and business sectors during and even after the financial crisis.

In South Africa, is there a correlation between good financial information and the success of SMMEs? According to (Smith 2020), poor access to finance for SMMEs has been a challenge in South Africa, acting as an inhibiting factor for their growth and sustainable development. This lack of finance can be attributed to poor corporate governance, lack of suitable finance products available to SMMEs, insufficient credit information, perceived riskiness of lending to SMMEs and lack of collateral. All these factors deter sustainable growth and development among these firms.

Banks are naturally risk-averse and are adamant about their request for stringent underwriting conditions before offering financial assistance and credit to SMMEs. This makes it hard for entrepreneurs to access this credit. In several cases, most of the bank lending is biased towards bigger and more established businesses rather than the SMMEs which fight to meet bank lending requirements. This systematic sidelining of the SMMEs exposes them to financial crises and leads to bankruptcy. According to the SARB (2021) credits, loans and advances to companies and businesses dropped somewhat at the end of 2020 because of gloomy credit environments which remained adamant because of the fears and uncertainty brought about by the COVID-19 pandemic. Ramlee and Berma (2013) indicate that the low and erratic level of SMME financing can emanate from both supply-side and demand-side issues. On the demand side, this

happens when several SMMEs disclose that they do not have access to financial organisations while the supply side includes the extreme costs of financing together with high collateral obligations. In the South African case, government financing for SMMEs is provided through grants and funding from development finance institutions (DFIs).

## ■ Financial governance challenges for small, medium and microenterprises

The financial governance component of SMME operations has an extremely important position in the modern business environment. Firstly, the management of the movement of capital in the business is core for modern SMMEs' operations management. The efficiency of financial governance will wholly affect the total operational benefit. Secondly, whether the SMME's turnover is smooth, reasonable and effective will also determine its survival and development. To achieve fluency in business operations, SMMEs must overcome various financial governance challenges.

### ■ Financial governance systems are not sufficient

The majority of SMMEs lack adequate financial governance systems. They do not maintain financial records, have unclear hierarchical structures for financial governance activities and lack defined reporting systems (Brijlal, Enow & Isaacs 2014). They also do not have detailed evaluations, control and monitoring systems. The management styles are normally dictated by the owner-managers. In addition, they often have problems such as interference between relatives of management and a lack of distinctive roles for staff, which easily leads to unclear responsibilities.

### ■ The structure of financial reports is inconsistent and irregular

Records of critical assets are not accounted for such components as total assets, accounts receivable and inventory. The structure of current assets is normally badly managed which exposes the SMMEs' business operations. The neglect of financial records often leads to bad debts as funds flow cannot be tracked. This increases operational and financial risks and reduces investor confidence (Mintah et al. 2022).

### ■ The cost system is not perfect

The SMMEs cost management systems do not have a complete working system and do not follow accounting standards. The accountability systems are often implemented badly and randomly. It is not easy to establish the



standards that SMMEs follow, cost forecasts, financial decisions, evaluations, analyses, etc. For example, SMMEs have challenges estimating data on production quotas, personnel workloads, evaluation indexes for material consumption per unit area or production cost estimates. This may be because of poor corporate governance and this deters their growth.

## ■ Poor planning of financing options

The SMMEs lack a detailed plan for fund management and precise prediction of funds on demand. The production and corporate operational events restricted by the market conditions are often poorly planned (Mahambehala 2019). As the production plans are rarely available, financial officers most often fail to predict the funds-on-demand accurately, leading to financing gaps or costly options. In addition, unclear funding availability causes a high cost of funding. As managers do not recognise ways to increase capital, they acquire materials on loans from financial institutions when facing cash-flow difficulties, which increases the burden of the SMMEs.

## ■ Minimal to no use of accounting information software

Very few SMMEs select suitable accounting or management information software for their operations or accounting information systems (AIS) (Amanamah, Morrison & Asiedu 2016). Although these options are available on the market, SMMEs do not utilise software that integrates basic cashier functions with overall accounting and management activities. Accounting and management systems can enable non-centralised management of products and assist financial staff in timely examining invoicing, receivables, accounts payable and costs to provide relevant decision-making information.

## ■ Small, medium and microenterprises access to finance and information

There is harmony in the literature acknowledging good financial governance skills as key to the sustainable development of SMMEs. Efficient financial governance practices give a past analysis of the outlook of the business, which may then be used to predict prospective future performance and give ways to forecast any future financial crisis. Optimal utilisation of financial governance enhances the growth of SMMEs and contributes to improving the overall growth of the economies in general. To enhance growth among SMMEs, Bhorat et al. (2018) recommend that SMMEs should consider seeking business and financial advice from

outside sources like accountants. This is because the market for assistance, particularly concerning the regulations that affect SMMEs, is continuously changing. As a result, many field experts are offering a broader range of services. Recently, the quality, quantity and type of information provided by accountants have evolved to meet the needs of SMMEs and reflect the deliberate intent of accountants.

Many studies on financial information, financial literacy and financial inclusion continue to attract interesting investigations on various conceptual dimensions (Ozili 2018). There is a notable dearth of collaboration between policy and academic research on financial information (Prabhakar 2019), particularly as it relates to SMMEs. Ozili (2018) posits that practitioners feel that theories of financial information and inclusion are a waste of time and that such theories could lead to a lack of significance to practitioners and policymakers. Researchers argue that it is advisable to focus on the accumulation of facts regarding financial information and inclusion, which will lead to informed decisions (Ozili 2020), rather than concentrating on opinions about the extent of constructs embedded in theories.

Despite the divergent views, there is a need for a structure, framework or principles to the understanding of financial information, and how it will benefit SMMEs programmes. Financial information can enhance the provision of financial services to SMMEs at a reasonable cost and improve the use of, together with access to, official financial services (Sahay et al. 2015). The increased need to expand the collation and dissemination of financial information on the SMMEs will enable addressing potential shortfalls and avert their financial exclusion (Ozili 2020). Such interventions would make it easier for financial service providers to ascertain viability and increase transparency, potentially lowering the risk perceptions towards SMMEs. Financial information is important both from the SMMEs' perspective and from the viewpoint of the financial services providers (Demirgüç-Kunt, Klapper & Singer 2017).

On one side, SMMEs require information to identify their potential suppliers for funding and other financial needs and to evaluate the cost of the financial services available on the market. On the other hand, financial services providers need financial information which can assist them in estimating the risks related to the SMME which pertains to applying for funding and assessing the prospects of the SMME within the operational segment.

## ■ Success stories and efforts at policy level

Financial information and overall inclusivity have been key policy intent for governmental policies of many emerging and developing countries. There is a

strong belief that financial information will help bring SMMEs and the unbanked population into the formal financial services sector, allowing them access to formal financial products and services. Many economies are making significant efforts to achieve optimal levels of financial information and inclusion. Small, medium and microenterprises that operate in informal spaces will have access to cheaper banking facilities with minimal documentation requirements. The expectation is that SMMEs should be able to obtain debit cards and bank identification numbers, access cheaper credit facilities, insurance policies, and mobile banking technology and adopt optimised payment systems without having to make compulsory equity down payments.

Various countries have had some notable success stories of access to banking and financial information around the world. Good examples of developing economies are India (Demirguc-Kunt et al. 2017), Kenya (Hove & Dubus 2019), Rwanda (Otioma, Madureira & Martinez 2019) and Peru (Cámara & Tuesta 2015). In India, financial inclusion was seen to have a direct link to poverty reduction, which contributes to economic growth and development. The case of Rwanda involves the community savings and credit cooperatives (SACCOs), a community-driven cooperative bank, commonly known as Umurenge SACCOs. In 2019, they attracted more than 1.6 million customers in only 3 years. Over 90% of Rwandans are reported to live within a 5-km radius and freely access the financial information of an Umurenge SACCO (Otioma et al. 2019). The case of Kenya involves the popular M-Pesa innovative banking system. M-Pesa has, over the years, been the chief instrument in achieving great financial information access for the Kenyan population and the SMMEs in Kenya. Peru saw the introduction of an interoperable mobile banking platform popularly known as Modelo Peru. Modelo Peru was introduced to create mobile financial services and banking for the people who need it such as the SMMEs, with the prime objective of promoting financial information flow and access to financial services.

There is no question that the financial services programmes and procedures adopted in some of these nations have been successful. However, two key concerns often arise: the financial information stream and access to banking services pose risks to SMMEs and at-risk customers in society. The second concern is whether this financial information flow and banking services should be aimed at SMMEs that have never been involved in the recognised financial sector or at individuals who have been distant from formal financial products.

## ■ Financial governance and good corporate governance practices

Good corporate governance in organisations leads to an improvement on the part of financial governance. Danoshana and Ravivathani (2019)

concur that the success of an organisation regarding finance depends on the management's efficacy and innovativeness, together with its compliance with the principles of corporate governance. Corporate governance standards lead to an improvement in the company's financial performance, where enhanced disclosures are meant to protect stakeholder interests (Al Mansoori, Alsaud & Yas 2021). The core is that if the corporate governance within a company is in order, trust is built between the company and all stakeholders. As a result, in the SMMEs, corporate governance improves their ability to access funds by creating investment opportunities on a long-term basis.

Several studies have been carried out on SMME development, both in developed and developing countries. These studies have taken various focuses and directions. Some focused on SMME development (Lichtenstein 2018; Rogerson 2008), and some on their survival and operations (Adam & Alarif 2021; Dubihlela & Sandada 2014). The other branch of studies explored the linkage between organisational performance using both financial and non-financial indicators and competitive priorities (Chakabva et al. 2020). These studies have made meaningful contributions to the body of knowledge. However, despite the unanimous agreement that SMMEs play a significant role in the economies' performances, many are still troubled by financial governance and constraints (Tharmini & Lakshan 2021). This chapter will, therefore, focus on the financial governance and corporate governance practices adopted in the SMMEs.

## ■ Conclusion

The chapter investigated the contribution of SMMEs to the economy and provided their overview in South Africa. In South Africa, the SMMEs' success is largely aligned with the history of the country where those operating in previously marginalised regions still struggle in terms of support, and this limits their growth and prosperity. The government of South Africa has since introduced several policies including the NDP which aims at creating jobs even through the SMMEs. However, external shocks like the outbreak of COVID-19 have decelerated all these efforts. Financial governance, being a factor of corporate governance is a concept that involves planning, organising, handling and controlling the financial and investing activities of any business type. The importance of proper financial governance cannot be overemphasised as it leads to business survival, growth and sustainability among the SMMEs. The concept of financial governance is broad and covers investment decisions, financial decisions and dividend decisions. Good financial governance results in minimisation of errors, improved compliance, ability to measure growth, improved productivity, data and financial transparency. Among the SMMEs, financial governance is a challenge because of low staffing resulting in some workers holding

multiple tasks in which they are not trained. In some cases, the owner runs all departments including finance and this creates problems where financial issues are not well managed. In such cases, financial governance systems are not sufficient, the structure of financial reports is inconsistent and irregular, the cost system is not perfect, there exists poor planning of financing options and there is minimal to no use of accounting information software. The benefits of financial governance and theories have been explained.

Access to financial information and funds is closely linked to the growth of the business. There is harmony in the literature that most established finance providers are reluctant to lend their funds to small businesses because of insecurity and lack of securities. Based on the contents of this chapter, the financial difficulties that SMMEs face, proper financial governance systems and good corporate governance are needed for the sustainability and growth of SMMEs.

## ■ Recommendations

Small, medium and microenterprises should practice good corporate governance by clarifying the roles of the chief executive officer (CEO), finance director and managers. It is important to understand that governance and the establishment of a sound financial risk management system are the responsibilities of the financial manager. Effective financial risk management enhances survival and sustainability. Small, micro and medium enterprises should develop effective governance infrastructures in the form of specific policies to guide their behaviour regarding processes, procedures, information and communication on financial matters. Financial information and overall inclusivity should be considered in the governmental policies of many poor, developing and emerging nations. There is a strong belief that financial information will help bring SMMEs and the unbanked population into the official financial services sector, granting them access to these services. This will enhance good financial governance among SMMEs. Small, medium and microenterprises operating in informal spaces can access cheaper banking facilities with minimal documentation requirements. Small, medium and microenterprises should be able to obtain insurance policies, bank debit cards and mobile banking technology, as well as access cheaper credit facilities and adopt optimised payment systems, without being forced to make mandatory equity down payments. The introduction of an interoperable mobile banking platform is intended to promote financial governance and access to financial services among SMMEs. A master policy for SMMEs should be developed, targeting the creation of strong and sustainable policy conditions that place SMMEs at the centre of faster economic growth and development. Policies that hinder

the growth and sustainability of SMMEs, including access to training, credit and skills development, should be interrogated. The Department of Small Business Development should be empowered to play a key role in establishing a policy and regulatory environment for SMMEs that facilitates their growth, sustainable development, job creation and empowerment while addressing key constraints to SMME development. This also includes ensuring good corporate governance.



# Sustainable entrepreneurship performance through adoption of sound corporate governance practices

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## ■ Abstract

Small businesses, especially small and medium enterprises (SMEs) today experience various risks emanating from economic, environmental and social failures. As such strategies to mitigate climate change, protect the environment and generate social gains towards sustainable development must be complemented by a good corporate governance structure that can be prioritised both in governments', business practitioners' and policy makers' agendas. As such, corporate governance is critical for sustainable

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SME practices because the way SME's operations impact the environment, economy and society is vital and must ensure that business supply chains are sourced ethically and promote sustainability. So far, the received wisdom is that sustainable entrepreneurs can accelerate the transition towards a sustainable economy using the adoption of corporate governance systems, and approaches, to design and offer socially and environmentally friendly products and services. Furthermore, the extant literature acknowledges that entrepreneurship plays a major role in solving the economic, environmental and social challenges faced in the global business world. In the quest to understand sustainable entrepreneurship performance, this chapter explores the factors currently driving sustainable entrepreneurship performance among SMEs and how corporate governance can enhance the sustainable performance of SMEs. In addition, the chapter explores the sustainable entrepreneurship performance evaluation metrics and approaches. The chapter concludes with a detailed discussion of trends and patterns in sustainable entrepreneurship through sound corporate practices as well as how these shape the future of sustainable entrepreneurship in SMEs.

## ■ Introduction

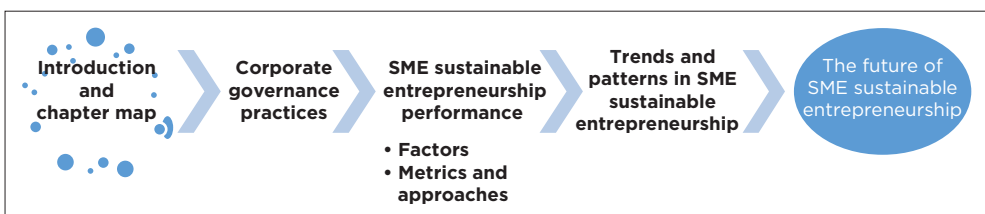
In today's rapidly evolving global landscape, the imperative for sustainability has transcended mere trendiness to become a fundamental cornerstone of modern business practices across industries and scales. From large corporations to small and medium enterprises (SMEs), businesses of all sizes are increasingly recognising the critical importance of integrating sustainable principles into their operations (Permatasari & Gunawan 2023, p. 2). This shift is driven not only by regulatory pressures and consumer expectations but also by a growing awareness of the profound impact that business activities have on the environment, society and long-term economic viability (Farny & Binder 2021, p. 2). As such, understanding and embracing sustainability has become not just a moral obligation but a strategic imperative for businesses seeking to thrive in the 21st century (Permatasari & Gunawan 2023, p. 2).

In the present-day sustainable entrepreneurship business arena, more so, as the environment continues to deteriorate and the climate crisis becomes more acute, consumer attitudes and preferences are vitally shifting the rules of business towards sustainability. These shifts in consumer attitudes are at the forefront of factors compelling enterprises of all sizes across various industries to commit to offering products of sustainable value as well as prove their sustainability claims throughout

their enterprise's lifecycle. As such, sustainable development currently forms the key global political agenda and has become a fundamental concept for business, policy and society worldwide (Farny & Binder 2021, p. 2; Greco & De Jong 2017, p. 3). Existing literature supports the link between sustainable development and sustainable entrepreneurship, and regards sustainable entrepreneurs as those who achieve profits by prioritising the well-being of people and the planet (Farny & Binder 2021, p. 2; Tshiaba et al. 2021, p. 3). Such entrepreneurs offer products of sustainable value and products that meet the needs of the current generation while maintaining inter and intra-generational equity when it comes to the ability of future generations to meet their own needs (Farny & Binder 2021, p. 2).

This chapter explores the factors currently driving sustainable entrepreneurship performance among SMEs through the adoption of sound governance practices. The chapter further explores the sustainability entrepreneurship performance evaluation metrics and approaches suitable for SMEs. The chapter concludes with a discussion of trends and patterns in sustainable entrepreneurship as well as the future of sustainable entrepreneurship in SMEs.

This chapter contributes to the body of literature by offering a comprehensive exploration of the relationship between sustainable entrepreneurship performance and the adoption of sound corporate governance practices within SMEs, specifically in the context of South Africa. It provides practical insights into corporate governance practices, factors affecting SME sustainable entrepreneurship performance, metrics and approaches, as well as trends and patterns in SME sustainable entrepreneurship. Additionally, it discusses the future of SME sustainable entrepreneurship, offering valuable guidance for SMEs, policymakers and stakeholders seeking to promote sustainability and corporate governance in the African business landscape (Figure 10.1).



Source: Author's own work.  
Key: SME, small and medium enterprise.

**FIGURE 10.1:** Chapter map.

## ■ **Corporate governance and small and medium enterprise sustainable entrepreneurship performance**

The persisting deterioration of the environment and other adverse impacts of business activities from firms of all sizes have attracted so much attention from various stakeholder groups (e.g. policymakers, consumers, researchers and business practitioners) the world over, who seek to address and redress sustainability issues (Latip et al. 2022, p. 1). This has escalated the demands and the need for SMEs to respond to sustainability issues, given that SMEs fulfil significant roles towards the improvement of economic growth, globally, even in developing economies (Ahmed et al. 2020, p. 155). Because the impact of SME actions and inactions is extremely important, there is a need for SMEs to voluntarily implement sustainable entrepreneurship practices and activities in their businesses.

More so, the apparent social and environmental ills arising from the enterprises' need to achieve economic gains have necessitated calls for SMEs to implement corporate governance practices in their day-to-day operations. Drawing from the stakeholder theory, Almagtome et al. (2020) noted good governance and sustainability as complimentary mechanisms that can help enhance stakeholder management and the performance of the firm. Likewise, cultivating a culture of implementing sound corporate governance practices in a manner that promotes sustainable entrepreneurship performance of SMEs is key in addressing the social, environmental and economic evils currently prevalent in developing countries such as South Africa. This is because implementing corporate governance practices can help promote sustainable entrepreneurship performance and growth of SMEs, improve the well-being of society and promote the health of the environment, as well as improve SMEs' contribution towards economic growth and employment creation.

According to Ahmed et al. (2020, p. 165), it is important for SMEs to adopt good governance practices through sustainable entrepreneurship because the implementation of such practices could eventually be translated into sustainable firm performance. Sidek and Backhouse (2014, p. 1657) report that the implementation of sustainable practices through the adoption of good governance practices in SME firms leads to a collective outcome of quality, environmental, economic success and social benefits. In other words, driving sustainable entrepreneurship with good corporate practices must ensure that the society is built on entrepreneurial activities that are ethical, society-friendly and beneficial to the community in terms of development. This is especially feasible when clear business plans and strategies are devised to harness the benefits of implementing corporate governance practices that promote sustainable entrepreneurial performance in SMEs.

This approach should balance the generation of economic benefits with the achievement of social and environmental objectives.

A study by Abdullahi et al. (2020, p. 13) and by Almeida and Wasim (2023, p. 10) also confirmed that there is a significant and positive relationship between higher levels of sustainable entrepreneurship and sustainable entrepreneurship performance of SMEs. Abdullahi et al. (2020, p. 13) further indicated that SME firms that often implement sustainable entrepreneurship achieve higher performance through lower costs, higher product quality, faster and more delivery as well as process flexibility.

Thus, when implementing sustainable entrepreneurship by adopting good governance practices, it is imperative for SMEs to advance the economic sustainability results together with the environmental and social results to solve the sustainability challenges such as environmental degradation, high pollution levels, poverty and unemployment by maintaining the sustainability of all three pillars (Chongoo et al. 2016). Therefore, for any country (including developing economies) to yield economic growth and alleviate poverty through the implementation of sustainable entrepreneurship practices in SMEs, such practices should be adopted and implemented in a way that mutually benefits the environment and society and should be in alignment with the SMEs' need to survive and grow (Sidek & Backhouse 2014, p. 1659). In other words, there should be a balance in the benefits to society, the environment and the SME. This can only be achievable if there is incorporation of good governance practices in sustainable entrepreneurship activities.

As a matter of fact, the relevance of good governance to sustainable entrepreneurship ensures that megatrends such as globalisation and digitalisation are pushing leaders to often revise their governance models to adapt to the changing nature of doing business. Given the trust issues that are often a challenge to most entrepreneurs, there is a need to adopt a more sustainable, proactive (beyond compliance) corporate governance model. Additionally, it is important to note that there is increased investor emphasis on enterprises' commitment to governance issues because it is necessary for entrepreneurs to create long-term value and become more resilient thereby strengthening their social license to operate. It is also important for SME entrepreneurs to bear in mind that key stakeholders such the consumers and investors require the assurance and guarantee that the SME business will be conducted with sincerity and integrity.

Although SMEs rarely implement sustainability, the loss of one pillar has an inevitable influence on the other pillars (Eikelenboom & De Jong 2019). This can, in turn, deter the sustainable entrepreneurship performance of the enterprise and that of its value chain. As such, these sustainability entrepreneurship (i.e. social, environmental and economic) pillars should be given much importance to promote long-term profit-making and

competitive SMEs and SME value chains (Eikelenboom & De Jong 2019). Likewise, it is important to view sustainable entrepreneurship performance using a balanced approach that encompasses all three pillars of sustainability. Sustainable entrepreneurship performance definitions have advanced over time to encompass the balancing of social, environmental and economic dimensions. In this chapter, SME sustainable entrepreneurship performance is thus defined in accordance with Schaltegger and Wagner (2006, p. 2) and refers to the performance of an SME, which extends beyond the boundaries of a single enterprise in the social, environmental and economic dimensions, and typically encompasses the performance of other stakeholders such as the upstream suppliers, intermediaries and downstream customers in the value chain.

## ■ Factors that affect small and medium enterprise sustainable entrepreneurship performance

There are several factors that can either promote or deter the achievement of sustainable entrepreneurship performance in SMEs, particularly in developing countries. These factors range from the size of the enterprise, access to adequate resources (e.g. finance, technology, infrastructure, information and availability of skilled personnel, among others), availability of government support, organisational culture, top management support and commitment as well as consumers' willingness to support SMEs' sustainable initiatives.

The business environment and industry in which SMEs operate play a major role in ensuring that such enterprises achieve positive outcomes from their sustainable entrepreneurship endeavours. For instance, disruptions and threats posed by the current coronavirus disease 2019 (COVID-19) pandemic as well as the ongoing Russia-Ukraine war have left a few SMEs grappling to remain afloat in business. Such threats and disruptions can force small-sized enterprises constantly battling with resource constraints to prioritise economic sustainability to ensure the survival of their businesses and families. Linnenluecke and Griffith (2010, p. 258) cautioned that economic sustainability (i.e. efficiency through cost reduction) on its own is insufficient to achieve corporate sustainability and should not be pursued in isolation. This is because the steps, initiatives and methods used to achieve economic sustainability may have a significant impact on the environment and society.

Small and medium enterprises' sustainable entrepreneurship performance also depends on other factors such as top management support and commitment as well as consumers' willingness to support their enterprise's

sustainable initiatives. If the SME owners or managers fail to commit and render the needed support, all the enterprise's sustainability initiatives will remain just but an idea. Besides the SME owners' or managers' commitment and support, it is imperative for customers to be willing and able to support the enterprise's sustainability endeavours to achieve positive sustainable entrepreneurship performance outcomes. Sustainability initiatives are usually costly, and given the limited resources owned by most SMEs, pursuing such initiatives will mean passing any sustainability-related additional costs incurred by the enterprise to customers in the form of high prices. The higher prices may end up reducing the market share for the SMEs' sustainability products, which will, in turn, deter the sustainable entrepreneurship performance of the SMEs and their value chain partners. The other key sustainable entrepreneurship performance factors are discussed in this section.

## ■ Size of the firm

The size of a business enterprise can either enhance or hinder the achievement of sustainable entrepreneurial performance. On one hand, large firms are typically associated with the availability of both financial and non-financial resources, which enables them to easily adopt sustainable initiatives. On the other hand, SMEs especially in developing countries are usually faced with resource constraints which makes them prioritise operational cost efficiency to earn a livelihood. Firm size is usually measured using the annual turnover and the total number of workers employed in the firm (Roxas, Battisi & Deakins 2013, p. 445). Extant literature has cited firm size as one of the SME firm characteristics that drive a firm's ability to adopt and implement innovative and sustainable initiatives, as well as SME success and firm performance (Ogujiuba et al. 2020, p. 14; Roxas et al. 2013).

In the case of Malaysia, Latip et al. (2022, p. 52) identified firm size as a key moderator of the relationship between customer pressure and the organisation's intention to adopt environmental management practices. Thus, it is logical for more customer pressure to increase the small-sized enterprises' intention to adopt environmental management practices because their survival depends mostly on customer support. As for the larger and medium-sized firms, they have more economic momentum which enables them to make investment decisions beyond issues of survival (Ogujiuba et al 2020, p. 14). Unlike small firms, medium and large firms usually experience relatively more environmental pressure from various stakeholders to be more sustainable in their operations (Latip et al. 2022, p. 51). If implemented well, such sustainability efforts can boost sustainable entrepreneurial performance.

## ■ Availability of government support

The availability of government support is key to promoting the SME sector as most SME-sized businesses, particularly in developing countries, are established primarily for survival (Ahmed et al 2020, p. 158). This means that if left with no external financial and non-financial support, SMEs are likely to prioritise operational cost efficiency to stay afloat and shy away from any additional costs such as those from sustainable entrepreneurship initiatives implementation. Ahmed et al (2020, p. 158) defined government support as the external support or assistance made available by various governmental institutions to help develop SMEs. This can be financial (in the form of financial incentives) or non-financial, for example through promoting easy access to advanced technologies, product recovery facilities, markets, scarce and yet low-cost resources, social support and tax breaks/reliefs, among others (Han et al. 2017, p. 8). Government support is needed to drive the SME sector in general, promote the successful implementation of sustainable entrepreneurship practices and boost sustainable entrepreneurship performance in SMEs (Ahmed et al 2020, p. 158; Alkahtani, Nordin & Khan 2020, p. 3).

Previous studies have so far associated government support with improved product quality, technological development and capability, enterprise growth, enhanced firm performance and new job creation from SMEs in developing countries (Guan & Yam 2015; Han et al. 2017, p. 8; Wei & Liu 2015). A study by Alkahtani et al. (2020, p. 3) reports a strong positive and significant impact of government support on the sustainable competitive performance of SMEs in Pakistan. As such, lack of government support can deter SME performance in general, and hinder SMEs' and their value chains' ability to achieve sustainable entrepreneurship performance. This can in turn hinder these enterprises' ability to generate new employment and ultimately shrink the growth of the economy.

## ■ Access to adequate resources

The successful achievement of sustainable entrepreneurship performance also depends on the SME's access to available resources. These resources include the available technologies, infrastructure, financial resources and skilled personnel. Generally, SMEs in developing countries are reported to be either slow or unwilling to take action to address environmental issues because of a lack of formal structures and limited access to time, financial and other non-financial resources like technology (Chongoo et al. 2016). These SMEs have also been reported to have caused environmental and societal challenges such as environmental degradation, exhaustion of natural resources, poverty, disease, unemployment and emission of dangerous gases in developing countries



(Latip et al. 2022, p. 51; Ogujiuba et al. 2020, p. 14). All these are consequences of poor sustainable entrepreneurship performance of SMEs, and given the challenges faced by these SMEs in most developing countries, the only rational decision for these enterprises to make is that of prioritising firm survival at the expense of societal and environmental needs.

Cant and Wiid (2013) point out that SMEs in South Africa find it difficult to successfully adopt sustainable programmes because of a lack of access to adequate finance, technology, information and rising crime rate. This deters SMEs from successfully achieving sustainable entrepreneurship performance. In the case of Zambia, a study by Chongoo et al. (2016) found insignificant effects of the SMEs' knowledge of the natural/social environment and the threats to the natural/social environment on the identification of sustainable opportunities. This could be because the SMEs did not have adequate knowledge of environmental issues and how to capitalise on the opportunities in a manner that benefits the SME, society and the environment. This resonates with Chongoo et al.'s (2016, p. 1) study which recommends that SMEs need to be trained even on environmental and social issues because this might impact the sustainability opportunities, as well as their sustainable entrepreneurship action and orientation.

## ■ Organisational culture

Organisational culture is the reflection of the predominant norms, values, beliefs and ideological underpinnings that guide the way in which things are carried out in an organisation (Adebayo et al. 2020, p. 1). It can serve as an enterprise's core competence that generates differential value for organisations regardless of size (Adebayo et al. 2020, p. 1). Previous studies have identified organisational culture as a key reason why enterprises fail to successfully implement their organisational change programmes and strategies such as digitisation and corporate sustainability (Guttermann 2020; Linnenluecke & Griffiths 2010, p. 357). This is especially the case when the change strategies and programmes are not aligned with an enterprise's organisational culture. Even in SMEs, change strategies such as those that seek to promote sustainable entrepreneurship performance can only succeed once the owner/manager tries to properly align such change programmes and strategies to the values, norms, beliefs and ideological underpinnings of the SME's culture. This is congruent with Linnenluecke and Griffiths' (2010, p. 258) and Medina-Alvarez and Sanchez-Medina's (2023, p. 399) supposition that organisational culture impacts the way in which corporate sustainability is implemented as well as predicts the extent of success or failure that may be observed by introducing such change initiatives into the organisation.



In their study, Linnenluecke and Griffiths (2010, p. 258) also cautioned enterprises which seek to foster a commitment to corporate sustainability and yet are dominated by internal process values, of the possibility of experiencing tension between existing organisational culture based on stability and control, a need to introduce curiosity, exploration as well as flexibility. Considering the above, Gutterman (2020, p. 29) recommended that sustainability leaders must implement both formal and informal organisational cultural practices to achieve positive long-term benefits from the implementation of sustainability programmes and strategies. The formal organisational cultural practices (i.e. rules and procedures) will help bring some form of structure and serve as support for the foundation of innovation and other future changes in the organisation. Implementing informal organisational cultural practices will create the needed momentum for change in the enterprise and support a sustainable innovation culture by generating the latest ideas necessary to bring the organisation closer to its long-term sustainability goals (Gutterman 2020, p. 29).

Bertels (2010) argued that to make sustainability an enduring part of the organisation, there is a need to embed sustainability goals in the organisational culture. Organisational sustainability culture has been defined as a culture in which the members of the enterprise have shared assumptions, ideologies and beliefs about the need to balance economic efficiency, social equity and environmental stewardship, responsibility and accountability (Gutterman 2020, p. 29). Bertels' (2010) study further elaborated that enterprises with a strong organisational sustainability culture endeavour to promote the health of the environment and enhance the livelihoods of the society while enjoying long-term survival, efficiency and profitability growth.

## ■ **Small and medium enterprise leadership's sustainability orientation, commitment and support**

Small and medium enterprise leaders (owners/managers) are the key decision makers of the SMEs. They provide direction for the SME's vision, mission, strategies, and long-term goals and values (Jahanshahi, Brem & Bhattacharjee 2017, p. 1636). Likewise, these leaders can cultivate a culture that either favours or discourages any sustainability actions in the enterprise. According to Closs, Speier and Meacham (2011, p. 102), enterprise leaders play a significant role in making decisions related to the enterprise's sustainability engagements. Lopez-Torres (2022, p. 1) points out that, recently, SMEs have been reported to present low sustainability interest, commitment and maturation levels and are seemingly neglecting and questioning the actual impact of transforming sustainability as a priority in

their enterprise's operations. Given the current hardships and disruptions (the current COVID-19 pandemic, the 2022 Russia-Ukraine war and the current economic recession), it is unusual for SME leaders to deliberately ignore social and environmental matters while prioritising the decisions on SME financial well-being to help ensure the long-term survival and growth of the SME.

A study by Jahanshahi and Brem (2017) explored the relationship between top management teams' behavioural integration with their innovativeness and sustainability orientation in 40 Iranian SMEs. Their study found that highly behaviourally integrated top management teams will pursue more sustainability-oriented actions than their counterparts who are less behaviourally integrated (Sarango-Lalangui, Alvarez-Garcia & Rio-Rama 2018). This can be achieved through a culture of knowledge sharing that will encourage fruitful collaborations as well as high behavioural integration between SME leaders, which will, in turn, promote sustainability engagements and thus enhance sustainable entrepreneurship performance in SMEs.

Enterprise leaders' behaviour and attitudes are shaped by numerous factors, including their experiences, education, knowledge and competence. For instance, if an SME leader has had prior positive experiences with sustainability actions, they are more likely to make decisions that favour sustainability initiatives in the SME. Conversely, previous negative experiences may lead the leader to adopt a negative attitude towards sustainability-related decisions.

Also, in cases where the leader has more knowledge of the importance of pursuing sustainability engagements, and the expertise in the implementation of such sustainability engagements, the leader will show a positive attitude, and show more commitment and support towards such sustainability engagements in the enterprise. Where SME owners and managers show a positive attitude, as well as provide better support and commitment towards sustainability issues, the SME will not only excel in generating more profits, but it will achieve profits through prioritisation of environmental health and society's well-being. As such, it is crucial that SME leaders attain knowledge on sustainability engagements to make informed decisions on sustainability matters in the enterprise. Previous studies have linked the SME owner/manager's level of education and knowledge to improved decision-making abilities, self-reliance, the promotion of a new set of attitudes and culture, as well as the long-term survival and growth of SMEs (Arogundade 2011, p. 26; Mhlongo & Daya 2023, p. 7; Peters et al. 2014, p. 1127). Such knowledge can be obtained through formal education, as well as by attending sustainability-related workshops and symposiums. These events allow SME leaders to interact with other enterprise leaders, facilitating the sharing and exchange of

knowledge on sustainability issues. This interaction is especially important, as it informs the decisions made by SME leaders.

The SME leader's level of education and knowledge is also linked to the SME leader's competency level in engaging in the enterprise's activities, which justifies its success in terms of quality and effectiveness. An SME leader's competency level can encompass the leader's abilities to assess risk, manage time, define the circle of personal interests, plan, analyse situations, solve problems, formulate viable strategies, resolve disputes and lead the enterprise (Ismail & Wright 2022, p. 1). Existing literature (Cuevas-Vergas, Parga-Montoya & Estrada 2020, p. 69; Daradkeh 2021, p. 42; Sihotang et al. 2020, p. 1607) have reported direct links between SME leaders' competencies, sustainability engagement and SME performance. According to Ismail and Wright (2022, p. 1), although these competencies are also associated with sustainability-oriented activities, they should be complemented by other factors to enhance the sustainable entrepreneurship performance of SMEs, particularly during times of hardship. Ismail and Wright (2022, p. 1) further note that SMEs must manage their competencies successfully and innovatively to succeed in their sustainability engagements.

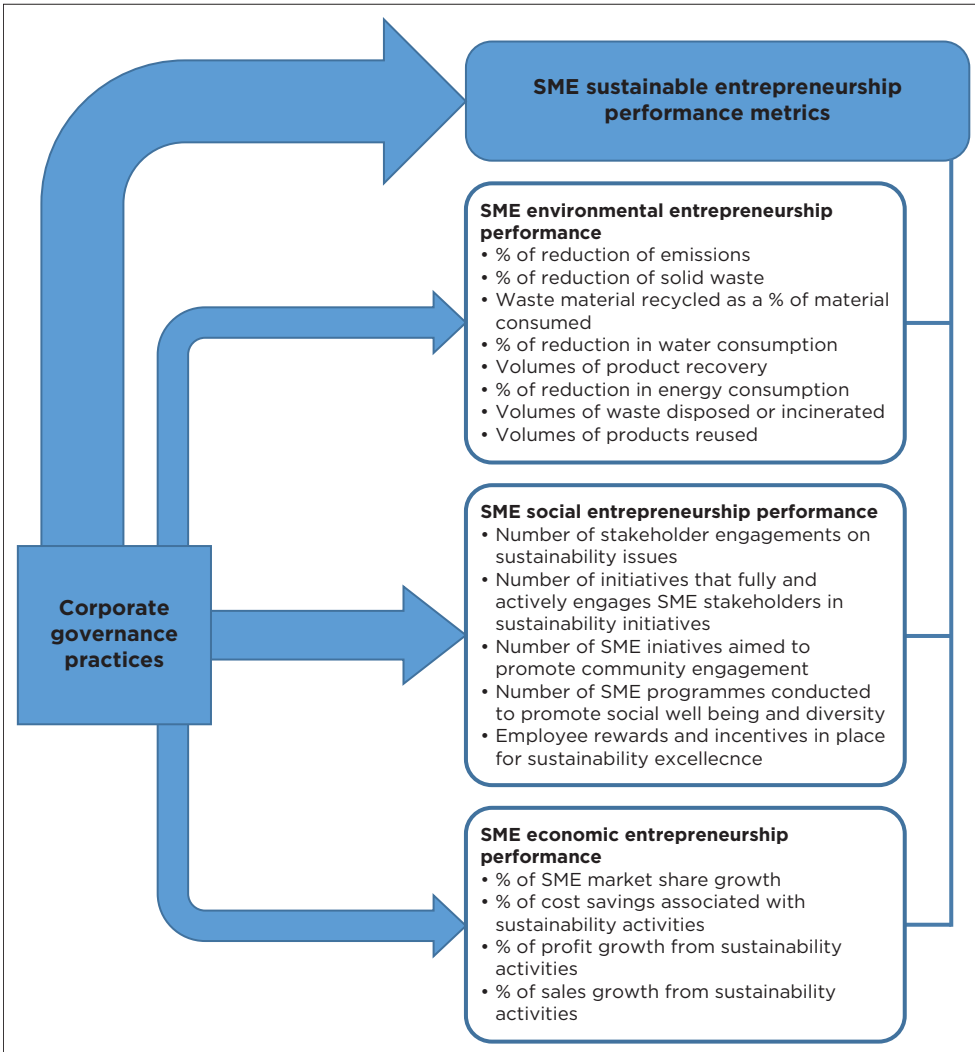
## ■ Small and medium enterprise sustainable entrepreneurship performance evaluation metrics and approaches

According to Lysons and Farrington (2016, p. 606), performance evaluation often employs both subjective/qualitative and objective/quantitative approaches. Similarly, the performance of sustainable entrepreneurship in SMEs can be assessed using either quantitative or qualitative methods. Various approaches for evaluating performance include accounting methods (e.g. profit centres, activity-based costing and standard and budgetary control), sustainability audits (such as innovative continuous sustainable audits) and comparative methods (like benchmarking and ratio analysis) (Lysons & Farrington, 2016, p. 606). Pisar and Kupec (2021, p. 193) describe innovative sustainability audits as cost-efficient, dynamic and continuous, involving the remote collection of audit data. Because of their cost efficiency, these audit methods can also be applied to micro and small-sized enterprises. In the case of deviations from target sustainable entrepreneurship performance, audit data can be transmitted to sustainability remote control centres, which can either provide the SME with appropriate remedies online or determine the corrective course of action offline (Pisar & Kupec 2021, p. 193). Small and medium enterprises can also use formal or informal control measures to evaluate their sustainable entrepreneurship performance. The formal control approaches can be informed by standardised environmental management practices such as the sustainability standards

provided by the International Standards Organisation ISO 14001, while the informal controls are shaped by the organisational culture. A study by Johnstone (2021, p. 560), although conducted on SMEs in a developed country (Northern Europe) context, found that SMEs adopted formal control measures that are primarily oriented towards quantitative measures relating to resource efficiency and environmental impacts of discrete targets and controls. In the same study, process efficiency related to waste management or carbon emissions was cited by the surveyed SMEs as one of the fundamental environmental performance measures.

Figure 10.2 describes corporate governance practices and sustainable entrepreneurship performance metrics for small and medium enterprises.

Sustainable entrepreneurship performance can be evaluated using various metrics and metrics dimensions. Chedli (2016) considers the evaluation of entrepreneurial enterprises' performance to encompass actions that span beyond economic/objective measures and perspectives. In other words, entrepreneurial enterprise performance should factor in good corporate governance practices. For example, in most enterprises, what most shareholders are concerned with is no longer the idea of corporate profitability, but rather a socially responsible governance model that is responsive to the needs of the organisation as well as those of the society and environment. Nhemachena and Murimbika (2018, p. 117) documented the steps that address environmental, economic and social goals to measure the performance of sustainable entrepreneurs. Based on the above, this chapter broadly categorises SME sustainable entrepreneurship performance evaluation metrics into three dimensions, namely, social, environmental and economic (see Figure 10.2). Small and medium enterprises' environmentally sustainable entrepreneurship performance assesses how successfully an SME can use its products, processes, policies and strategies to minimise its negative impacts and enhance its positive effects on the natural environment (Adebayo et al. 2020, p. 3; Babalola 2012). As shown in Figure 10.2, SME environmental entrepreneurship performance can be evaluated based on the SME's percentage reduction of emissions, solid waste, water consumption, energy consumption and waste disposed, along with the amounts of products reused, materials recycled as well as products recovered per given period. For SMEs to achieve positive environmental entrepreneurship performance, the enterprises' sustainability strategies need to be embedded in the SMEs' organisational culture. Collaborations with stakeholders that facilitate the transfer of the required knowledge and technology are required to enhance the environmental entrepreneurship performance of SMEs and that of their value chains. This will also enable a conducive environment for effective innovative continuous sustainability audits and controls that will show the SMEs any gaps in performance as well as the remedial actions required to keep their environmental performance on a positive trajectory.



Source: Adapted from Nhemachena & Murimbika (2018), p. 117; Rosario, Raimundos & Cruz (2022), pp. 6-8; Sarango-Lalangui, Alvarez-Garcia & Rio-Rama (2018), p. 12.  
Key: SME, small and medium enterprise.

**FIGURE 10.2:** Corporate governance practices and sustainable entrepreneurship performance evaluation metrics for small and medium enterprises.

As earlier noted in the arguments above, sustainable entrepreneurship plays a leading role in solving societal and environmental issues through the achievement of the long-term profitability and growth goal of SMEs. Thus, SME social entrepreneurship performance is perceived as a dimension that evaluates sustainable entrepreneurship performance based on the social value created through the SME's initiatives to promote equality and diversity, social well-being, community development, livelihood security, as well as human rights (Rosario et al. 2022, p. 12). As shown in Figure 10.1, this dimension also focuses on metrics such as the number of stakeholder engagements on

sustainability issues as well the employee rewards and incentives to promote a culture of social sustainability excellence in SMEs. Such a performance dimension requires SME owners/managers to constantly perform a community need analysis, as well as benchmark their social sustainability initiatives against the industry standards and world-class standards as well as against the needs of the communities in which these enterprises operate. It is also important that clear lines of transparent dialogue between the SMEs and society be established to minimise the gaps in community needs and maximise the generated social value by the SMEs.

Small and medium enterprise economic entrepreneurship performance dimension is another fundamental premise for SME existence which is crucial in understanding the basis of SME sustainability (Tshiaba et al. 2021, p. 1). It evaluates the economic viability of an SME and generates employment benefits, creates social value and promotes environmental welfare (Sarango-Lalangui et al. 2018, p. 6). However, what is missing in most SMEs is the understanding of how to effectively incorporate good governance practices to achieve sustainable entrepreneurship performance. Good corporate governance, as such, ensures that the SMEs' capital structure, perception of the market, profitability and stability are sustainably hinged on good governance.

According to Rosario et al. (2022, p. 12), the economic entrepreneurship performance dimension assesses the enterprise's economic value through the profit, return on investments, financial resilience, long-term viability and business stability measures. Thus, as shown in Figure 10.2, the SME economic entrepreneurship performance dimension evaluates the SME's long-term viability, stability and financial resilience using the percentage of SME market share growth, cost savings and sales growth associated with the enterprise's sustainability activities. As noted earlier, to promote long-term viability, stability and financial resilience, it is imperative for SMEs to pursue this dimension simultaneously with the social and environmental entrepreneurship performance dimensions. Clearly, for SMEs to achieve long-term positive economic performance outcomes, key factors include proper resource planning and utilisation, training staff on sustainability matters, aligning sustainability programmes and strategies with organisational culture and policies, and cultivating mutually beneficial collaborative relationships with stakeholders (Gutterman 2020, p. 29).

## ■ Ways in which corporate governance can enhance the sustainable performance of small and medium enterprises

Corporate governance plays a fundamental role in the sustainable performance of SMEs. Although there have been limited studies on the link

between corporate governance practices and sustainable entrepreneurship performance, few of the studies like Arora and Dharwadkar (2011) claim that corporate governance plays a crucial role in the sustainable performance of SMEs by promoting effective decisions about sustainability practices. Moreover, corporate governance is particularly important in the achievement of sustainable entrepreneurship performance of SMEs because it enhances better monitoring of environmental and social performance (Ajeigbe & Ganda 2022, p. 155).

Apart from the above, pursuing sustainable entrepreneurship performance through the implementation of corporate governance practices in SMEs can prove to be too costly because such initiatives must be regularly evaluated against the legal systems in the country in which the SMEs operate before mandating other or additional sustainable entrepreneurship initiatives. This is critical because it will ultimately assist regulators in enhancing corporate governance effectiveness and corporate social responsibility. Moreover, improving corporate governance in the sustainable entrepreneurship performance of SMEs benefits not only managers, employees and shareholders but is also vital for the survival of these SMEs, especially in light of growing environmental and social concerns.

In fact, most SMEs struggle with corporate identity. Corporate identity is a key governance issue because it reflects what the SME truly represents, rather than what it might advocate for. In this context, most SMEs would benefit from incorporating branding into their corporate governance strategies to enhance sustainable entrepreneurship performance. Effective branding can help SMEs create and maintain a competitive advantage over their rivals. This, in turn, can enable SMEs to align their operations with societal values during a time of rapid change. Given this, ethical behaviour becomes essential for all SMEs. Such ethical behaviour forms the SME's culture, which consists of a shared set of values and guiding principles deeply ingrained throughout the organisation (Aidt 2010; Mhlongo & Daya, 2023, p. 7). Consequently, ethical behaviour and culture become integral to the definition of corporate identity.

## ■ Sustainable entrepreneurship: Trends and practices

Entrepreneurship has gained prominence as an initiative for generating economic benefits (Munoz & Cohen 2018, p. 313). However, a critical aspect of entrepreneurship is the concept of sustainable development, which has emerged as a pressing issue affecting the global system. Moreover, as sustainable development takes centre stage in the entrepreneurial activities of SMEs and larger established businesses, there have been increasing calls



for entrepreneurship to focus not only on generating wealth (Schaltegger et al. 2018, p. 140). Given the significant focus on preserving the natural environment, there have been calls to embrace sustainable entrepreneurship. Sustainable entrepreneurship, in its simplest form, involves conducting business without neglecting the environment. In other words, while profit-making is the core function of any business, it should never take precedence over environmental considerations. Likewise, the environment should not overshadow business interests, which is the essence of sustainable entrepreneurship. However, as awareness of the world's escalating environmental problems has grown, entrepreneurs now need to integrate social and environmental agendas with their primary commercial operations (Mason & Brown 2014, p. 25).

Hart and Milstein (1999, p. 18) were among the first scholars to connect the concepts of entrepreneurship and sustainable development. They argued that sustainable development presents a promising opportunity for entrepreneurs and innovators. In this context, entrepreneurs must demonstrate that they are taking measures to minimise their adverse effects on the environment (Choi & Gray 2008, p. 347) and incorporate pro-socio-environmental values into their core business activities (Gast, Gundolf & Cesinger 2017, p. 48; Muñoz et al. 2018, p. 320).

South Africa has promoted the idea of transformation as a means to address pressing socio-economic issues such as poverty, unemployment and inequality. Additionally, the country has been grappling with high graduate unemployment, excessive bureaucracy, corruption and poor-quality infrastructure, all of which hinder sustainable entrepreneurship. Recently, South Africa, through the Department of Cooperative Governance and Traditional Affairs (COGTA), adopted a model based on the concept of Environmental and Social Governance (ESG) (Cooperative Governance & Traditional Affairs, 2021). These initiatives encourage SMEs to pursue sustainability in various ways, including recycling.

Moreover, there have been moves to embrace e-commerce. Uber Eats is one enterprising company that has leveraged e-commerce to its advantage. For example, people can order their food online and have it delivered to them. The same applies to grocery stores, such as Shoprite and Pick n Pay. It should be highlighted that this trend gained prominence during the COVID-19 pandemic. In all these businesses, corporate governance is a key feature, especially regarding products that align with environmental protection. For example, instead of using plastics, most of the aforementioned businesses prefer to use biodegradable materials while encouraging their customers to adopt the same sustainable practices.

More so, there are also calls by most of these businesses not to do business with other companies that might be involved in child labour or



those that benefit from the proceeds of unfair labour practices whether in terms of gender or sexual orientation as is alluded to the *Basic Conditions of Employment Act of 75 of 1997* and the *Employment Equity Act 55 of 1998*. All the above businesses have in their corporate strategy embraced the ESG principles, and the corporate strategy is centred on the three pillars of environment, social responsibility and good governance. The above said businesses have all made moves to enhance the recycling of plastic bags and made it mandatory by having strong themes of sustaining the environment labelled on their bags. These adopted actions are designed to lessen waste production, pollution and carbon dioxide generation. Additionally, it entails having an inclusive and diverse staff, from entry-level employees to the board of directors (World Economic Forum 2016). While implementing ESG may be expensive and time-consuming, it can pay off in the long run for those who remain committed to the process.

Apart from the above, sustainable entrepreneurship addresses how businesses approach climate change. Climate resilience refers to what businesses are doing to help maintain the environment, and for a business to thrive, climate resilience and sustainability must go hand in hand. In the context of South Africa, sustainable entrepreneurship should focus on protecting the environment and making wise use of natural resources, while also uplifting society. Businesses in South Africa have adopted a new strategy in which environmental and climate change concerns take precedence over making profits. Businesses that have incorporated sustainable development goals (SDGs) into the process of developing their strategy are proof of this. De Kock et al. (2021) point out that while these activities should not come before business expansion, they should be an essential part of it. Beyond the advantage of supply stability, alternative energy investments now offer highly favourable payback periods (De Kock et al. 2021). Additionally, recent surveys indicate that younger generations are more selective about the companies they support, depending on those brands' commitment to sustainability. Therefore, to achieve sustainable entrepreneurial success, SMEs need to establish proper corporate governance systems.

## ■ The future of entrepreneurship

The COVID-19 pandemic had a tremendous and devastating impact on the global economy, leading to job insecurity and rising unemployment, as well as putting unbearable stress and strain on individuals and health care services (International Labour Organization and World Bank 2021, p. 12). However, there were also some positives that emerged from the lockdowns. For example, the potential of small businesses in e-commerce became evident, technology was utilised more extensively, and there was increased

flexibility in workplaces as people worked remotely from home (International Labour Organization and World Bank 2021, p. 15). Even though much has been written about work and the future of work after COVID-19, little has been said about entrepreneurship and its future trends. Furthermore, there is a need to understand how the disruption caused by the pandemic affects and shapes the future of SMEs. However, what is clear is that becoming an entrepreneur is rapidly becoming the number one choice for 'Generation Next' (a cohort of young adults). According to Preet (2021, p. 5), the next generation of aspiring entrepreneurs will help society overcome crises like COVID-19 because they can deliver innovation, ensure future sustainability and create secure, fair and powerful economies that benefit everyone. Nonetheless, there is also a need to infuse sound corporate practices into this future. The lack of good corporate practices is detrimental to a future that is likely to be digital and technical. For instance, global events such as COVID-19 have made it possible for most people to work from home, often without monitoring or regulation regarding what they can post on their personal and company social media pages.

Not implementing measures and systems to monitor and regulate the content posted by employees can damage the enterprise's image, even in the long term. Thus, if SMEs adopt robust corporate practices, they stand a better chance in the future. Good corporate practices mean that, while their main motive may be profit, SMEs do not neglect their responsibilities, whether environmental or social. In fact, the adoption of good corporate practices will ensure a brighter future, as SMEs will continue to be part of a society that values and respects ethical business practices. What trends are shaping the future of entrepreneurship despite all this, though?

## ■ **Characterised by digitalisation: Emphasising agility, resilience and speed**

The future of entrepreneurship will be determined by several factors, primarily the evolving nature of digitalisation. While entrepreneurship is unpredictable and influenced by prevailing circumstances, there is no doubt that digitalisation will significantly impact banking, farming, food production and health – areas that are vital for humanity. With advancements in technology, SMEs can find better, faster and more sustainable methods of production and distribution, ultimately benefiting the environment. Firms must embrace this technology if they are to remain in business sustainably. The World Economic Forum's (2016) seminal study on the future of jobs emphasises the need for substantial reskilling initiatives within the digital economy, which are essential for ensuring the future readiness and sustainability of all businesses. This call to action is particularly relevant in today's hybrid working landscape, where the demand for skills such as active learning, stress tolerance and adaptability has surged.

Furthermore, it is noteworthy that business enterprises demonstrating agility and swift adaptation during crises have gained a significant strategic edge over their competitors (International Labour Organization and World Bank 2021, p. 23). These findings highlight the critical importance of proactive skill development initiatives and agile organisational responses in navigating the evolving business landscape. They underscore the need for ongoing research and investment in workforce development strategies to ensure future resilience and success.

Currently, digitalisation has enabled all facets of human life to embrace e-technology. For example, businesses have welcomed e-commerce, schools have adopted e-learning and health facilities have implemented e-health. These advancements have facilitated and necessitated faster business transactions, learning and delivery of health services. As such, there is no doubt that digitalisation has changed how people manage their lives. While the world had already begun to embrace technology, COVID-19 accelerated this shift, as limited movement of people required businesses to adapt more quickly. Consumer demands have evolved (International Labour Organization and World Bank 2021, p. 40). The use of recent technology has become considerably more comfortable for people. Like other crises and health emergencies in the past, the COVID-19 pandemic served as a significant stimulus for digital entrepreneurship. Additionally, the lowering of entrepreneurship hurdles, particularly in the digital realm, is another beneficial outcome of COVID-19. Undoubtedly, it is becoming simpler to launch a global business.

Cloud technology has significantly reduced both initial startup costs and ongoing maintenance expenses for businesses, cutting them by more than half. Furthermore, acquiring and utilising modern technology has become notably more straightforward. Access to contemporary technology is also much simpler (Preet 2021, p. 6). Small and medium-sized enterprises can reach a larger audience through websites and platforms that incorporate a tech stack, improving relationships between SMEs and their key stakeholders, such as suppliers, customers and other partners. While these changes are not new, the acceleration brought on by COVID-19 is. Businesses that once planned their digital strategies years in advance were able to scale those same projects in a matter of days or weeks, according to Baig et al. (2020, p. 22). Because it is evident that digitalisation will play a key role in the future of entrepreneurship, there is a need to harness digitalisation with sound corporate governance practices to promote SME performance and growth through sustainable entrepreneurship initiatives.

Moreover, an SME's digital strategy should be properly aligned with sound corporate governance practices to ensure the well-being of the community, employees, customers and other stakeholders while promoting a healthy environment and ultimately a profitable enterprise. This will

require SMEs to invest in educating all stakeholders about the value of and need for an aligned digital strategy. Additionally, policies to protect stakeholders' rights and adequate support systems should be implemented to ensure the successful execution of such a digital strategy. Because SMEs, particularly in developing economies, are known to struggle with funding, there is a need for government assistance (e.g. financial support or access to quality yet affordable technologies) to enhance the sustainable entrepreneurship performance of SMEs through the adoption of sound corporate governance practices. Collaborations with larger enterprises can also promote better sustainable entrepreneurship performance among SMEs, fostering sustainable growth and competitiveness.

## ■ New age of diverse entrepreneurship

The emergence of COVID-19 has necessitated significant shifts in traditional entrepreneurship in South Africa and across Africa, with a growing need to embrace new business methods driven by technological advancements (Chigbu & Nekhwevha 2021; Mhlanga, Denhere & Moloi 2022). As technology increasingly becomes integral to daily life, the future of entrepreneurship in the region is expected to exhibit diverse forms. It is likely that younger individuals and women will take on entrepreneurial roles, while opportunities for entrepreneurship will continue to flourish across Africa (Akpan, Udoh & Adebisi 2022).

However, it is essential to acknowledge that the advent of the Fourth Industrial Revolution (4IR) may lead to job displacement as automation and AI-driven technologies, such as robots, become central to business operations (Chaka 2023). This trend will likely be more prominent in developed countries than in developing ones.

Throughout these changes, it is expected that issues related to climate change, pollution and inequality will come into sharper focus, even as the need for additional resources to support a growing population grows (Vedula et al. 2022). This diversification of entrepreneurship is likely to manifest in various sectors, including transportation, agriculture, mining, education and communication. Moreover, access to satellite technology will provide business professionals and communities with enhanced connectivity and knowledge access (Reddick et al. 2020). Nonetheless, amid this diversification and growth in entrepreneurship, the importance of good corporate governance remains paramount (Konadu, Ahinful & Owusu-Agyei 2021). It will play a critical role in ensuring the success of SMEs as they endeavour to expand through the implementation of sustainable entrepreneurship initiatives. While new opportunities will continue to arise, SMEs must be prepared to confront fresh challenges and adapt their business strategies to remain robust.

Moreover, South Africa and Africa at large are confronted with a shortage of skilled individuals, which underscores the pressing need for comprehensive training programmes to equip people for the challenges posed by the 4IR (Kayembe & Nel 2019). Addressing this skills deficit is pivotal in preparing the workforce to harness the potential of the 4IR. These training initiatives will help break down barriers to entrepreneurship, enabling young individuals to develop their distinctive skills and perspectives. It is crucial to incorporate entrepreneurship into post-COVID-19 recovery strategies, not just as a matter of teaching or leading but as a means of addressing the skills gap and reshaping the economic landscape (Bennett & McWhorter 2021).

## ■ Location-independent solutions

The pandemic has created new opportunities for entrepreneurs and permanently transformed the way people work (Preet 2021, p. 4). In the future, universally applicable solutions will define entrepreneurship. Remote workers offer location-independent solutions. Consider the health care industry, which has recently undergone a radical transformation. Society has significantly increased its investment in telehealth, remote diagnostics and medical equipment. In other sectors, technology is promoting a location-free, mobile-first and social commerce-focused environment. Digital nomads now represent the new generation of successful entrepreneurs (Preet 2021, p. 4).

## ■ Green businesses

Businesses that will survive in the future are those that take care of the environment. Customers are now conscious of environmental issues and are likely to choose to buy from entrepreneurs who are seen as protecting the environment. According to Volery (2002, p. 542), the typical business model characterised by high pollution and profit-driven motives has failed because of the globalised nature of the business world. Allen and Malin (2008, p. 829) argue that consumers are now more receptive to the necessity of a different type of business model that calls for sustainability and incorporates environmental concerns into its considerations of the 'bottom line.' Lotfi, Yousefi and Jafari (2018) found that green entrepreneurship has a positive and significant effect on sustainable development. The studies mentioned above demonstrate that going green is a win-win, as it protects the environment without compromising the profitability of firms. This aligns with the findings of Schaper (2016) as well as Rofiaty et al. (2024, p. 1086), which indicate that globally, green entrepreneurship improves the success of firms by providing increasing business opportunities.

## ■ Conclusion

This chapter underscores the vital relationship between corporate governance practices and sustainable entrepreneurship in SMEs. It highlights that effective corporate governance is essential for fostering sustainable entrepreneurial endeavours. By integrating sustainability principles into their governance framework, SMEs can address environmental, social and economic concerns while fostering strong stakeholder relationships. This chapter explores the factors influencing the performance of sustainable entrepreneurship in SMEs, assessment metrics and emerging trends that are reshaping the future of entrepreneurship by promoting innovation, sustainability and adaptability in response to evolving business dynamics.

In conclusion, this chapter has shed light on the critical nexus between corporate governance and sustainable entrepreneurship performance in SMEs, emphasising the pivotal role of effective corporate governance in driving sustainable entrepreneurship practices. By embracing sustainability within their governance structures, SMEs will not only navigate environmental, social and economic challenges but also seize opportunities for innovation and growth. As we move forward, it is imperative for SMEs to continue prioritising sustainability and adaptability, leveraging emerging trends to propel their entrepreneurial ventures towards a future that is both sustainable and characterised by consistent business success.

## ■ Recommendations

The book chapter provides a comprehensive set of recommendations, offering a strategic guide for fostering sustainable entrepreneurship through the integration of sound corporate governance practices within the South African context. South African entrepreneurs and business leaders hold the key to driving change and should wholeheartedly embrace these actionable steps and best practices. By weaving sustainability into their core strategies, business leaders can enhance their businesses' long-term viability while also contributing positively to the broader economy and society. Transparency and active stakeholder engagement should be at the forefront of their efforts, fostering trust and accountability within their organisations.

Regulatory bodies and policymakers play an instrumental role in shaping the business landscape. Encouraging them to revise policies and regulations in favour of sustainable corporate governance is paramount. A supportive regulatory environment will incentivise businesses to prioritise sustainability, aligning economic growth with ecological and social responsibility. Simultaneously, educators and researchers must champion the cause of

sustainable corporate governance through research and education. By emphasising its importance and providing the necessary tools and knowledge, they can empower the next generation of business leaders to make informed and responsible decisions.

Investors and stakeholders also have a role to play by integrating corporate governance and sustainability into their investment criteria. This shift towards responsible investment not only mitigates risks but also encourages businesses to adopt more sustainable practices. The creation of industry-specific sustainability forums or networks within the broader business community can facilitate knowledge-sharing and collective action, accelerating progress towards a sustainable future.

Ultimately, the dynamic nature of sustainability and corporate governance necessitates continuous improvement and adaptability. These recommendations collectively emphasise that fostering a culture of responsibility and ethical behaviour is fundamental to sustainable entrepreneurship in South Africa. By implementing these suggestions, the nation can take significant strides towards building a prosperous and sustainable business environment that benefits not only the economy but also society and the environment at large.

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## Chapter 1

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## Chapter 2

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## Chapter 3

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## Chapter 4

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## Chapter 7

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## Chapter 8

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## Chapter 10

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# Index

## A

Amathole District Municipality, 132, 135, 149

## B

board of directors, 22, 25, 27, 52, 84, 86–87, 89–91, 96–99, 102, 134, 167, 169, 177, 195, 200, 236

Broad-Based Black Economic Empowerment, 125, 147

## C

challenges, 6, 9, 12–13, 16–18, 22–23, 28, 37, 45–46, 49, 52, 55, 72, 77, 79, 84, 86–87, 89, 92–95, 107, 109–110, 119, 121–124, 126, 131–132, 134–140, 142–156, 158, 162–165, 170–171, 178, 181–182, 185, 190–192, 196–197, 201–202, 204, 211–212, 220, 223, 226–227, 239–241

cooperative entrepreneurship, 72, 74–76

corporate governance, 3–29, 31–36, 38–40, 42–48, 50, 52–68, 70, 72–73, 75–78, 83–89, 91, 95–99, 101–103, 105–106, 108, 122, 124, 126, 131–141, 147–148, 150–153, 155–159, 161–164, 166–179, 181–182, 185, 193–205, 210, 212, 214–217, 219–224, 226, 228, 230–236, 238–242

corporate governance practices, 3–10, 12–18, 20–22, 24–26, 28–29, 31–32, 39, 57, 59, 62, 65–67, 77, 83, 96–97, 101, 105–106, 108, 122, 126, 131–136, 139, 147–148, 150–153, 155–159, 161–164, 169, 173, 181, 194, 199, 214–215, 219, 221–222, 231–232, 234, 238–239, 241

## D

democracy, 33, 45, 47, 74–75, 107, 170

development, 3–9, 11–18, 21, 23, 25–27, 29, 31–43, 46–50, 52, 54–55, 58–59, 61, 63–64, 66, 73, 75, 77–79, 100, 107, 109–110, 112, 125, 127, 134–136, 138–149, 152–154, 157–158, 161–164, 166, 168–170, 172–179, 181–184, 186, 188, 190–192, 194, 196–206, 208–212, 214–217, 219, 221–222, 226, 232, 234–236, 238, 240

## E

Eastern Cape Province, 131–132, 137–138, 145  
economic and social development, 4, 11

economic growth, 9, 11, 14, 32–38, 40–42, 44–45, 49–50, 54, 58, 71, 107, 127, 132–134, 138, 141, 146, 157, 168, 170, 183, 189–190, 193, 202, 214, 216, 222–223, 241

entrepreneur, 23, 31, 33, 36–37, 41–46, 53–56, 77, 79, 106–107, 109–117, 120–124, 126–127, 142, 163, 165, 167, 172–173, 175, 179, 185, 187, 190–197, 210, 220–221, 223, 231, 235, 237, 240–241

entrepreneurial culture, 57, 168, 181–186, 193, 198

entrepreneurship, 1, 4, 6–8, 12–13, 31–48, 50, 52–68, 70–79, 106–114, 116, 121–122, 124–125, 129, 133, 136, 139, 154, 162–164, 167–168, 172–175, 178, 182–186, 190, 192–197, 219–242

## F

financial governance, 6, 199–206, 208–212, 214–216

founder, 88, 93, 98–99, 109

## G

gender disparity, 53, 181, 184

government policies, 6–7, 36, 161–164, 166–170, 172–178, 190

green entrepreneurship, 240

growth, 5–6, 9, 11, 13–17, 22–23, 25–26, 32–50, 54, 58, 64, 71, 78, 83–84, 86, 88, 90, 92, 94, 96, 98, 100, 102, 106–108, 112–115, 125, 127, 132–139, 141–143, 146, 152–153, 155, 157–158, 162–163, 165, 167–168, 170, 172–173, 183, 186, 189–190, 192–193, 195, 198–202, 204–205, 207, 209–210, 212, 214–217, 222–223, 226, 228–229, 232–233, 238–239, 241

## H

humanism, 58

## J

job creation, 9, 34–36, 38, 40, 49, 53, 106–108, 121–124, 127, 154, 164, 167–168, 172, 174, 182–183, 189, 199, 217, 226

## M

microenterprises, 3-4, 6, 31-32, 34, 37-39, 46, 56-57, 64, 79, 81, 83, 105-110, 112-114, 116, 118-120, 122, 124, 126-127, 131, 135, 161-162, 164, 166, 168-178, 181, 192, 194, 199-201, 205, 209, 211-212, 214, 216, 219

## P

patriarchy, 183, 185-186  
philosophy, 1, 6-7, 20-21, 52, 56-64, 66, 68-73, 75-79, 111, 120, 191, 206  
preferential procurement policy framework, 170  
profitability, 5, 24-25, 43, 59, 62, 136-137, 140, 155, 158, 168, 200-205, 228, 231-233, 240

## R

risk, 14, 18-19, 21-22, 24-25, 27-29, 43, 46, 56, 70-71, 76, 88, 91, 102, 134, 143-144, 155, 157-158, 168, 171, 179, 185, 188, 191, 193, 198, 203, 205, 207, 210-211, 213-214, 216, 219, 230, 242

## S

small and medium enterprises (SMEs), 3-29, 55, 58-61, 63-69, 72, 75, 77, 83-84, 86-87, 96-97, 131, 134, 140, 156, 190, 219-239, 241  
small and medium-sized tourism enterprises (SMTEs), 7, 131-149, 150, 152, 153-159, 274  
small businesses, 7, 11, 16, 18-19, 21, 26-27, 31, 34, 38, 47, 50, 54, 56, 59, 68, 74, 112, 125, 127, 136, 140-142, 148, 150, 153, 156, 158, 164-165, 169, 205, 216, 219, 236  
small, medium and microenterprises (SMMEs), 3-4, 6, 31-32, 34, 37-39, 46, 56-57, 64, 79, 81, 83, 105, 107, 131, 135, 161-162, 164, 166, 168-178, 181, 192, 194, 199-201, 205, 209, 211-212, 214, 216, 219-200  
South Africa, 3, 5-9, 31-42, 45-53, 55-57, 59-61, 64-65, 68, 73, 83-87, 94-96,

100-101, 103, 105-113, 115, 118, 120, 124, 126-127, 131, 133-135, 138-139, 142-149, 161-174, 176, 181-185, 187-199, 201-202, 210, 215, 219, 221-222, 227, 235-236, 239-240, 242

start-up, 13, 48-49, 99, 110-112, 125, 127, 139-140, 142, 150, 163, 165, 190, 193  
succession, 84, 86-96, 99, 102, 194-197  
survival, 15, 17, 22-23, 27-28, 59, 69-70, 91-95, 100, 106, 108, 114-115, 122-123, 125, 127, 133, 135, 137, 139-140, 155, 158, 164-165, 168, 200-202, 207, 209, 211, 215-216, 224-229, 234  
survivalist, 6-7, 105-110, 112-124, 126-127  
sustainability, 1, 3-29, 31-32, 35, 37-40, 44-46, 51-62, 64-66, 69-73, 75-77, 81, 83-84, 86-88, 90-94, 96-103, 105-110, 112-114, 116, 118-120, 122-127, 129, 131-142, 144, 146, 148, 150-158, 161-164, 167-175, 177-178, 181, 185, 193-197, 199-201, 203, 206-207, 209, 215-217, 219-225, 227-237, 240-242  
sustainable, 4-6, 8-9, 11-17, 19, 21-26, 28-29, 32, 37, 40, 47, 49-50, 52, 54-55, 59-60, 64, 66-67, 69, 72-74, 78-79, 88-89, 98, 100-102, 107, 122, 124, 133, 135, 138-139, 141, 148, 155-157, 161-164, 168-169, 172, 175, 177-178, 181-182, 184, 186, 188, 190, 192, 194-206, 208, 210, 212, 214, 216-217, 219-242  
sustainable development, 4, 6, 8-9, 11-14, 16-17, 23, 25, 29, 32, 40, 52, 73, 79, 100, 135, 138, 157, 161, 163-164, 172, 177, 182, 184, 199-204, 206, 208, 210, 212, 214, 216-217, 219, 221, 234-236, 240  
sustainable entrepreneurship, 6, 60, 74, 162, 172, 175, 178, 219-236, 238-242  
sustainable entrepreneurship performance, 6, 219-227, 229-234, 239, 241

## T

theory synthesis, 3-4, 9-10, 15, 20-21, 29

## U

Ubuntu, 6-7, 57-79, 168  
Ubuntupreneurship model, 71, 74-78

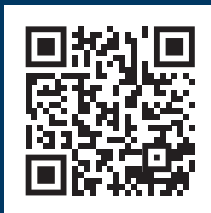
*Corporate governance practices promoting the sustainability of small, medium and microenterprises in South Africa* offers a compelling blueprint for policymakers, scholars and practitioners alike to work towards a robust framework capable of enhancing the sustainable operations of small businesses. The authors of the constitutive chapters adeptly navigate and demystify corporate governance concepts, largely reserved for established businesses. In the process, complex governance principles and concepts are broken down, integrated and made accessible to entrepreneurs and small business owners from different backgrounds.

The book's use of practical cases and relevant examples to discuss the applicability of corporate governance principles in a variety of contexts associated with the area of small business operations adds greater depth and enhances the significance of good corporate practices in diverse contexts. Given the clear steps and actionable strategies captured in the different chapters, this work will prove to be a valuable resource for small business owners seeking to enhance their businesses' sustainability and long-term growth.

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*Corporate governance practices promoting the sustainability of small, medium and microenterprises in South Africa* addresses the gap in the literature on corporate governance and small enterprises by exploring whether the integration of corporate governance in small, medium and microenterprises enhances the sustainability of these entities. This is the central investigation of the book, with each chapter uniquely contributing to knowledge generation and debate in this regard.



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